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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on the Exposure Draft *Discount Rate for Employee Benefi ts (Proposed amendments to IAS 19)*

To the Board Members:

The Japanese Institute of Certified Public Accountants appreciates the continued efforts of the International Accounting Standard Board (IASB) on the post-employment benefit promises project, and welcomes the opportunity to comment on the exposure draft *Discount Rate for Employee Benefi ts (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?

Comment:

We do not agree with the Board's proposal.

It is our understanding that the IFRSs are developed by the Board with the objective of developing accounting standards which are prepared based on "principles-based standards" that reflect the framework, and are to be applied globally. Given that the principles-based accounting standards are prepared based on fundamental accounting concepts, it is believed that making amendments on the standards to address particular factors, such as temporary emergency factors, is not desirable.

Accordingly, we do not agree to the Board's proposal to amend the requirements of International Accounting Standards for the reason that there are differences in interest rates between high quality corporate bonds and government bonds in the current economic conditions or capital market. Specific reasons therefore are as follows:

1） Although the Board gives the differences in interest rates between high quality corporate bonds and government bonds in certain countries as the reason for amending the requirement, it is not an adequate reason for amending the requirement of IFRSs since the aggregate values of the market capitalization other than said certain countries are observably high, indicating normalcy.

2） While it is understood that the Board is considering a post-employment benefit project, the determination of the discount rate to be used in calculating the defined benefit obligation is important in post-employment benefits accounting, both in terms of conceptual and practical perspectives. This proposal being made prior to the overall consideration of liability measurements (paragraph BC7), it is believed that responding to the criticisms on the current accounting standards without fully discussing the discount rate as it pertains to post-employment benefits, is not an appropriate stance for the development of accounting standards for global application. In particular, we believe that the proposal to uniformly apply the yield on high quality corporate bonds as the discount rate, in spite of the fact that the

Board has not yet considered whether it is appropriate for use as the discount rate, lacks the rationality to justify amendment of the standards.

3) While it may be true that the current financial crisis is resulting in differences between the government bond and high quality corporate bonds in certain countries, it is believed that the results of a more detailed analysis of the reasons for said differences should be included in the proposal, if the accounting standards are to be amended. For example, there also may be the possibility that the interest rates for high quality corporate bonds are higher than the rightful discount rate, due to increases in liquidity, credit and other risks. Hence, we believe that a proposal to adopt the yield on high quality corporate bonds as the uniform discount rate at this stage, without a serious examination of discount rates, lacks persuasion.

4) It is said that the concept of fair value comprises an objective fair value and a subjective fair value. There also are knowledgeable persons who believe that many of the current accounting issues are attributable to "subjective" fair values. Under these circumstances, the Board holds that while the uniform adoption of the yield of high quality corporate bonds as the discount rate may require subjective estimates, the estimates will be no more subjective than other accounting estimates (paragraph BC5). However, we believe that it is necessary to conduct further studies and include the results thereof in the proposal on whether the relative depth of the quality corporate bond market and the government bond market may vary depending on the country or locality, and whether it can be said that there is little likelihood that comparability will be undermined due to said subjective estimates, particularly in countries that do not have a (or have a relatively subordinated) high quality corporate bond market.

5) While we do not agree with the Board's proposal to amend the current accounting standards, we believe that methods other than amending the standards should be sought in the absence of adequate time to examine emergency measures from the accounting perspective, including the possibility of applying the hierarchy provisions (paragraphs 10 through 12 of IAS 8) or, in the rare circumstances, the override provisions (paragraph 19 of IAS 1) to the relevant countries, should it be deemed appropriate to apply the contents of the proposal to the current calculation method for the discount rate. Since this proposal will have a significant impact on the statement of the financial conditions, it is suggested to examine, from a

fundamental perspective, the appropriateness of the proposed rate as the discount rate for post-employment benefits accounting.

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?

Comment:

We oppose referring to paragraphs AG63 through AG82 of IAS 39.

It is our understanding that the Board is currently examining post-employment benefits accounting, starting with the basics. It is believed that the said basics include the classification of post-employment benefit plans, accounting for the post-employment benefit assets and liabilities including accounting for immediate recognition of actuarial gains and losses, and consideration of financial presentation, as well as the consideration of possibility of consolidating post-employment pension funds. Taking into account the current status of the progress of the Board's post-employment project, the proposals could be made in consideration of the comprehensive directionality of the post-employment benefits accounting standards. We believe that adopting an approach wherein other accounting standards are referenced for only one item under the post-employment benefits accounting is neither helpful nor appropriate from the perspective of providing users of financial statements with information useful for economic decision making. Specific reasons therefore are as follows:

1） Given that it is currently proposed in the exposure draft *Fair Value Measurement* that paragraphs AG69 through AG82 be revised, it seems to us that referencing the said paragraphs appears as if there were an assumption that the currently proposed revisions will be accepted as proposed and we believe it is not an appropriate approach to take in terms of due process as stipulated by the Board. In other words, we do not believe that it is appropriate to refer to contents that are currently under examination.

2） Based on FASB Discussion Memorandum, Feb. 19, 1981, FASB Preliminary Views, Nov. 1982 and other reference materials useful in the consideration of paragraph

BC31 of IAS 19 and IAS 19 itself, we believe that the discount rate used for defined benefit obligations is predicated on the concept of risk free rates. If the current AG69, AG73 and other paragraphs of IAS 39 are to be applied, credit risk will have to be reflected in the discount rate in accordance with the requirements thereof. Since this signifies referencing contents that are inconsistent with the nature of the discount rate sought by IAS 19, the proposal of the Board is not appropriate.

3） Defined benefit obligations are the benefit obligations, represented as liabilities, to be fulfilled by a company with respect to relevant employees and then differ from financial liabilities of which the main purpose is to procure funding or managing investments through such means as assignment to a third party. The Board states that it is in the process of considering the method of measuring defined benefit obligation and has not yet considered whether the yield on high quality corporate bonds is the most appropriate discount rate (paragraph BC7). Hence, we believe that it is not possible to determine at this time whether it is appropriate to refer to IAS 39, which covers financial instruments, also with respect to the discount rate that will have a significant impact on liability measurements.

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) 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?

Comment:

As a whole, we do not agree with the Board's proposal as stated above. However, should there be a change in the defined benefit obligation (or asset) as a result of emergency measures taken with regard to the discount rate, we support the Board’s proposal for transition to recognize the said change directly in retained earnings.

If there is a change as a result of emergency measures regarding the discount rate and it is assumed that said change is a result of an abnormal relationship between the interest rates of the government bond and of the high quality corporate bonds, it is not appropriate to carry said change in amount forward. Hence, it is believed that the change should be recognized in a profit or loss for the current or a previous fiscal period. Hence, we agree to the aforementioned proposal for transition.

Yours faithfully,

Kiyoshi Ichimura
Executive Board Member－Accounting Standards
The Japanese Institute of Certified Public Accountants