Mr Kevin Stevenson
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Australian Accounting Standards Board
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By Email: standard@aasb.gov.au

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Dear Kevin

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 187 which is a re-badged copy of the International Accounting Standards Board's Exposure Draft ED/2009/10 (the ED). We have considered the ED along with the accompanying Staff Paper and set out our comments below.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International which is working on a global submission to the IASB, and discussions with key constituents.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton's global submission will be finalised by the IASB's due date of 30 September 2009.

We agree that entities with similar underlying employee benefit obligation may increasingly report them at significantly different amounts due to the widening of the spread between yields on corporate bonds and yields on government bonds during the global financial crisis. Although we have some concerns regarding the adequacy of using the yield on high quality corporate bonds to identify the discount rate, we believe that the ED's proposals represent a net improvement to IAS 19. We therefore support the Board's intention to quickly eliminate this unintended reduction in comparability.

However we do believe that in some countries where there is not deep market in high quality corporate bonds, there may be no alternative other than to use a government bond rate, and we suggest that the AASB may wish to consider whether in the Australian context, this is the case. Using the AASB 139/IAS 39 hierarchy for valuation may end back with a government bond rate by default- i.e. start with the market rate if there is a market and then revert to other valuation techniques such as 'similar transactions' and then cash flow estimates etc if there is no suitable market. It could be argued that the 'similar transactions' part of the hierarchy would allow you to use government bonds as a starting point with perhaps an adjustment to reflect the higher risk of corporate bonds.

In the longer term, we believe that a wider review of the measurement of post-employment benefit obligations and the accounting for post-employment benefit plans more generally is needed. In particular, we believe that the Board's basis for conclusions on the use of high quality corporate bonds to determine the discount rate (IAS 19.BC26-34) is worth revisiting.

However, we appreciate that the current ED is intended as a short-term urgent improvement to address a narrowly defined problem. Consequently, consideration of whether the yield on high quality corporate bonds is the most appropriate discount rate for measuring post-employment benefit obligations is outside the scope of this consultation.

Our responses to the questions in the ED's Invitation to Comment reflect the ED's narrow scope and are set out below.

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?

Response

For the reasons noted above, we agree with the proposal to eliminate the requirement to use government bond rates in the absence of a deep market for high quality corporate bonds. This should help reduce inconsistencies in amounts recognised for similar underlying employee benefit obligation.

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?

Response

We agree in principle with the proposal to use the principles and approach in IAS 39.AG69-82 (with a subsequent updated link to the finalised *Fair Value Measurement* IFRS when issued) to estimate the yields on high quality corporate bonds, which is flexible enough to deal with changes in the depth of the market for such bonds.

Additional disclosures relating to the reliability and source of the discount rate calculation (i.e. whether the rate is based on market rates or other valuation technique) would enhance the information provided to users of the financial statements.

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 recognised 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?

Response

The nature of the change of accounting policy is such that we agree it may not be practicable to apply it retrospectively. Consequently, we support prospective application.

We agree that the gain or loss recognised on the change in accounting policy should be recognised in retained earnings.

Specific AASB Questions

2 (a) Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities; and

Response

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals.

2 (b) whether, overall, the proposals would result in financial statements that would be useful to users; and

Response

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals.

2 (c) Whether the proposals are in the best interests of the Australian economy.

Response

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals.

3 Retention to allow the not-for-profit sector entities to use market yields on government bonds.

Response

We support this retention as the applicable corporate bond rate presumably is the government bond rate.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards