

IAS 19 Employee Benefits (June 2017)

Discount rate in a country that has adopted another country's currency

The Committee received a request to clarify how an entity determines the rate used to discount post-employment benefit obligations (discount rate) in a country (Ecuador) that has adopted another currency as its official or legal currency (the US dollar). The entity's post-employment benefit obligation is denominated in US dollars. The submitter says there is no deep market for high quality corporate bonds denominated in US dollars in the country in which the entity operates (Ecuador).

The submitter asked whether, in that situation, the entity considers the depth of the market in high quality corporate bonds denominated in US dollars in other markets or countries in which those bonds are issued (for example, the United States). If there is no deep market in high quality corporate bonds denominated in US dollars, IAS 19 requires the entity to use the market yield on government bonds denominated in US dollars when determining the discount rate. The submitter asked whether the entity can use market yields on bonds denominated in US dollars issued by the Ecuadorian government, or whether instead the entity is required to use market yields on bonds denominated in US dollars issued by a government in another market or country.

The Committee observed, applying paragraph 83 of IAS 19, that:

- a. an entity with post-employment benefit obligations denominated in a particular currency assesses the depth of the market in high quality corporate bonds denominated in that currency. This means that the entity does not limit this assessment to the market or country in which it operates, but also considers other markets or countries in which high quality corporate bonds denominated in that currency are issued.
- b. if there is a deep market in high quality corporate bonds denominated in that currency, the entity determines the discount rate by reference to market yields on high quality corporate bonds at the end of the reporting period. It does so even if there is no deep market in such bonds in the market or country in which the entity operates. In this situation, the entity does not use market yields on government bonds to determine the discount rate.
- c. if there is no deep market in high quality corporate bonds denominated in that currency, the entity determines the discount rate using market yields on government bonds denominated in that currency.
- d. the entity applies judgement to determine the appropriate population of high quality corporate bonds or government bonds to reference when determining the discount rate. The currency and term of the bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.

The Committee noted that the discount rate does not reflect the expected return on plan assets. Paragraph BC130 of IAS 19 says that the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan.

In addition, the Committee considered the interaction between the requirements in paragraphs 75 and 83 of IAS 19. Paragraph 75 of IAS 19 requires actuarial assumptions to be mutually compatible. The Committee concluded that it is not possible to assess whether, and to what extent, a discount rate derived by applying the requirements in paragraph 83 of IAS 19 is compatible with other actuarial assumptions. Accordingly, the entity applies the requirements in paragraph 83 of IAS 19 when it determines the discount rate.

The Committee concluded that the requirements in IAS 19 provide an adequate basis for an entity to determine the discount rate when the entity operates in a country that has adopted another currency as its official or legal currency. Consequently, the Committee decided not to add this matter to its standard-setting agenda.