IAS 19: Change in Discount Rate Approach

Extract, IFRS Discussion Group Report on Meeting – December 3, 2015

The Group had previously discussed the issue, "IAS 19: Discount Rates," at its May 2015 meeting regarding the use of alternative approaches to a single weighted average or traditional discount rate approach. Group members noted that IAS 19 *Employee Benefits* does not appear to preclude the use of alternative approaches. Overall, Group members emphasized it is important to look at the underlying details of any model to understand if the calculations are aligned with the requirements in IAS 19 and if the model is being applied consistently from period to period.

For purposes of this discussion, the Group assumed that an acceptable alternative approach to a single weighted average discount rate is being adopted by an entity.

Issue: Should the change from a single weighted average or traditional discount rate approach to an alternative accepted approach be considered a change in accounting policy or a change in accounting estimate under IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors***?*

View A – Change in accounting policy.

The definition of "accounting policies" in paragraph 5 of IAS 8 includes "specific principles, bases, conventions and practices." Under this view, a change in the discount rate approach is a change in convention or practice. As a result, the methodology of determining the discount rate is considered an accounting policy decision and the change would be applied retrospectively unless it is impracticable to determine the period-specific effects.

Proponents of this view note that applying this change retrospectively provides useful information to users because the change would be made to all prior periods.

View B – Change in accounting estimate.

Under this view, a change in the discount rate approach is a refinement of a calculation or methodology rather than a change in accounting policy because the principle underlying the accounting has not changed. This view would be considered consistent with the guidance in paragraphs 33 to 34 of IAS 8 regarding changes in accounting estimates.

Proponents of this view note that if it is difficult to distinguish between a change in accounting policy and a change in accounting estimate, paragraph 35 of IAS 8 requires the change to be treated as a change in accounting estimate.

The Group's Discussion

Group members shared a common view that it would be appropriate to treat a change in the discount rate approach as a change in estimate (View B).

Some Group members considered the change to be a refinement of an input and observed that there are other areas in IFRSs where refinements are treated as a change in estimate. For example, under

IFRS 13 *Fair Value Measurement*, a revision resulting from a change in valuation technique is accounted for as a change in estimate. Other Group members commented that if the change contained characteristics of both an accounting policy and an estimate, guidance in paragraph 35 of IAS 8 would point towards a change in accounting estimate. Another point was made that if a change in the discount rate approach is considered an accounting policy change, a practical challenge would be applying the method without the use of hindsight.

One Group member thought it would be difficult to rule out either approach because paragraph 5 of IAS 8 defines accounting policies as "specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements." This member noted that using a single rate and moving to more granular rates is akin to a change in convention but agreed that retrospectively applying the approach without the use of hindsight would be difficult.

Group members emphasized the importance of disclosures to ensure users of financial statements have sufficient information to understand the method being used to determine the discount rate. They also emphasized the requirement to disclose discount rates used to determine the present value of the defined benefit obligation.

Although the relevant guidance in U.S. GAAP is different, the staff of the U.S. Securities and Exchange Commission concluded that they would not object to a registrant treating a change from a traditional, single weighted average discount rate approach to a disaggregated discount rate approach as a change in accounting estimate. However, robust disclosures would be needed to explain the effects of this change.

The Group's discussion raises awareness about this item. No further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the audio clip).