



## Heads Up

# Change to discount rate applied to AASB 119 Employee Benefits

### Contents

#### Background

#### What this means for your business

#### Related Link

[G100 Media Release](#)

### “In summary”

- Research commissioned by the Group of 100 concludes that a deep market for high quality corporate bonds now exists in Australia. Where such a market exists, AASB 119 requires that the rate used to discount employee benefit liabilities shall reflect those market yields.
- This will represent a change for Australian entities which have been using a government bond rate on the basis that a deep market for corporate bonds did not exist. As high quality corporate bond yields are greater than the government bond yields currently used, applying this higher discount rate will generally result in a decrease in employee benefit liabilities.
- Actuarial firm Milliman Australia has developed and will regularly publish discount rate curves for application by entities when discounting their employee benefit liabilities. This information will be available for 30 June 2015 year-ends and onwards. The information will also be available on the G100 website.
- Given that a deep market for high quality corporate bonds now exists in Australia, the yield on high quality corporate bonds should be used where required by AASB 119. Use of the Milliman/G100 published rate is not compulsory and it is possible for an entity to use an alternative rate if it satisfies the requirements of the accounting standards to be considered a high quality corporate bond rate.
- This development should be accounted for as a change in accounting estimate and applied prospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Disclosure should be made if the impact of the change in estimate is material.
- Not-for-profit public sector entities will not be impacted by this change.

### Background

Under AASB 119, employee benefit liabilities include benefits such as annual leave, long service leave, and defined benefit schemes. AASB 119.83 requires that the rate used by for-profit entities and not-for-profit private sector entities to discount employee benefit liabilities shall be determined by reference to market

yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market for such bonds, the market yields on government bonds shall be used.

Until recently, within Australia, the consensus view had been that a deep market for high quality corporate bonds did not exist and therefore most employee benefit liabilities are being discounted using the Reserve Bank of Australia's federal government bond rate.

In 2014, the Group of 100 commissioned actuarial firm Milliman Australia to assess whether a deep market for high quality corporate bonds exists within Australia. Milliman Australia has concluded that such a market does exist based on an analysis of corporate bonds both over time and in comparison to other international markets. Deloitte concur with this conclusion. Milliman Australia has developed a methodology to derive a discount rate curve based on high quality corporate bond rates that may be used by entities when discounting their employee benefit liabilities. The Milliman Australia rates will be made publicly available on the [Group of 100](#) and [Milliman Australia](#) websites on a periodic basis from June 2015.

Whilst initially there will be a published rate available from Milliman/G100 it is possible that over time other organisations may potentially publish their own high quality corporate bond discount rates. In Deloitte's opinion, use of a high quality corporate bond rate is not restricted to the published Milliman/G100 rate and alternative rates may be used if they are appropriately derived in accordance with the accounting standards. We recommend that each entity documents its rationale for the use of its selected rate and agrees the use of such rate with its auditor.

The discount rates applied by an entity under AASB 119 should be consistent with the currency and term of the entity's obligations.

The change in discount rates will also apply to for-profit entities that report under the equivalent International Accounting Standard, IAS 19.

Not-for-profit public sector entities will not be impacted as AASB 119.Aus83.1 specifically requires the use of a government bond rate for the discounting of employee benefit liabilities.

### **What this means for your business**

At the time of publication of this alert, the Australian Securities and Investments Commission (ASIC) have not yet publicly commented on the report published by Milliman Australia. Deloitte continues to monitor ASIC's communications and will communicate any updates accordingly.

Nonetheless, in order to comply with AASB 119 for-profit entities and not-for-profit private sector entities should use a discount rate that reflects the yields on high quality corporate bonds for 30 June 2015 year-ends and thereafter. AASB 119 requires that where a deep market for high quality corporate bonds exists that such a rate is used to discount employee benefit liabilities but does not mandate the use of any particular rate. From a practical perspective Deloitte would expect many entities to apply the published Milliman rate, especially initially; however this does not preclude the use of appropriately determined alternatives.

This change in discount rate should be accounted for prospectively as a change in accounting estimate in accordance with AASB 108. Where the impact of the change in discount rate is material, businesses should disclose in their financial statements the nature and amount the change in accounting estimate will have in the current period. If practical, business should also disclose the effect the change will have in future periods.

As a result of using a higher discount rate, compared to a current government bond rate, it is highly probable that there will be a decrease in employee benefit liabilities particularly in the year of change from a government bond rate. Businesses may want to consider timely communication of these changes to their stakeholders, where the

impact is significant. Deloitte encourages entities that are affected to discuss with their actuaries and audit teams the impact the change will have on their financial statements.

Australian not-for-profit public sector entities applying AASB 119 are required to continue using a government bond rate to discount their employee benefit liabilities.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

#### About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 210,000 professionals are committed to becoming the standard of excellence.

#### About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at [www.deloitte.com.au](http://www.deloitte.com.au).

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited