European Securities and Markets Authority

The Chair

Date: 26 June 2013
ESMA/2013/815

Mr Wayne Upton
IFRS IC
Cannon Street 30
London EC4M 6XH
United Kingdom

Ref: Amendment to IAS 19 *Employee benefits*: Regional market issue

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA believes that the valuation of post-employment benefit obligations in accordance with IAS 19 - *Employee Benefits* continues to be a very topical issue in the preparation of IFRS financial statements, notably in the current environment of low interest rates in Europe. This has been documented by a debate about determination of the discount rate for post-employment benefit obligations during the meetings of IASB and IFRS IC in recent months. Market participants have expressed concerns about the consistency of application of the IAS 19 requirements in relation to the determination of the discount rate with reference to high-quality corporate bonds and with reference to a regional market sharing the same currency or currencies pegged to this regional currency.

Although IAS 19 does not explicitly identify which corporate bonds qualify in the category of 'high-quality corporate bonds', the predominant past practice has been to consider corporate bonds to be high quality if they receive one of the two highest credit ratings rating agency. This past practice has been confirmed in November 2012 and January 2013 IFRS IC Updates[1,2].

In cases where there is no deep market in such bonds in 'a country', the market yields for government bonds shall be used (c.f., IAS 19, paragraph 83). In June 2005 an IFRIC Agenda decision[3] indicated that the reference to 'a country' mentioned above **could reasonably be read** as "*including high-quality corporate bonds that are available in a regional market to which the entity has access, provided that the currency of the regional market and the country were the same (e.g. the euro)*". In January 2013, the IFRS IC Update confirmed[4] this position and clarified that "*for a liability expressed in euro, the deepness of the market of high-quality corporate bonds* ***should be assessed*** *at the Eurozone level*".

During its May 2013 meeting[5], IFRS Interpretations Committee (IFRS IC) decided to add to its agenda the scope issue regarding which corporate bonds qualify in the category of 'high-quality corporate bonds' without further clarifying or changing the objective of the Standard. ESMA agrees that explicit guidance is required in this area.

However, ESMA notes that the IFRS IC does not plan to issue a formal clarification which would confirm the agenda decision taken in June 2005 regarding the application of the IAS 19 requirements to a regional market sharing the same currency. ESMA is very concerned about this tentative decision taken by the IFRS IC during its May meeting. ESMA is worried that unless the issue of a regional market sharing the same currency is formally clarified as part of the planned amendment to IAS 19, the objective of consistent application cannot be fully achieved.

ESMA notes that although IFRS IC agenda decisions and IFRS IC Updates are important sources of guidance for prepares, auditors and accounting enforcers, they do not have the same authoritative status as amendments to standards as they do not constitute part of the IFRSs in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors* and are not subject to the full due process. ESMA also notes that the wording of the June 2005 Agenda Decision and the January 2013 IFRS IC Update is not identical and the rationale of this change of wording is not explicitly explained.

[1] IFRS IC Update – November 2012, IFRS Foundation, November 2013
[2] IFRS IC Update – January 2013, IFRS Foundation, January 2013
[3] IFRIC Update – June 2005, International Accounting Standards Committee Foundation, June 2005
[4] IFRS IC Update – January 2013, IFRS Foundation, January 2013
[5] IFRS IC Update – May 2013, IFRS Foundation, May 2013

ESMA is of the view that if no explicit clarification is made, potentially diversity in practice will persist, with negative impact on consistent application and enforceability (resulting in less comparable financial statements). As a consequence, ESMA asks the IFRS IC to reconsider its tentative decision taken during its May meeting and address explicitly the issue of a regional market sharing the same currency as part of the planned amendments to IAS 19.

We would also like to ask you to clarify whether the IAS 19 requirements for regional markets sharing the same currency also apply in the case that a currency is pegged to another currency.

We would be happy to further discuss this issue with you.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority