CHANGE YOUR DISCOUNT RATE FOR EMPLOYEE BENEFIT PROVISIONS AND DEFINED BENEFIT OBLIGATIONS AT 30 JUNE 2015

Since the introduction of IFRSs in 2005, Australian entities have used government bond rates to discount their long-term employee benefits (long service leave and in some cases, annual leave, liabilities) and defined benefit obligations because it was considered that Australia did not have a **deep market for high quality corporate bonds** (AASB 119 *Employee Benefits*, paragraph 83).

However, the results of recent research commissioned by the Group of 100 (G100) and the Actuaries Institute of Australia show that Australia **does have** a sufficiently deep corporate bond market so that corporate bond rates **must** be used instead of government bond rates.

Per the G100's report, high quality corporate bonds in Australia (AAA and AA rated bonds) have a combined market capitalisation of AUD40 billion and a liquidity ratio of 55 per cent. The report found that Australia is comparable with other international markets using corporate bonds, having similar liquidity ratios, and a deeper market compared with the comparable markets of Sweden and Norway, although market depth appears to be lower than Canada. All three of these markets currently use corporate bond rates as discount rates.

Impact of using corporate bond rate

Corporate bond rates will be higher than government bond rates, which means a reduction in long service leave provisions and defined benefit obligations.

Is the change in rate likely to be material?

For most entities, discounting long service (and annual leave if applicable) using the corporate bond rate rather than the government bond rate i**s not likely to be material**, unless you have very large amounts of accumulated leave balances.

Defined benefit obligations are likely to decrease and may, or may not, be material.

Is the change in rate a change in accounting policy or change in estimate?

The change to the corporate bond rate must be accounted for as a change in estimate under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. This means that the impact of the 'catch-up' adjustment will be accounted for during the 30 June 2015 reporting period.

If material, you will need to disclose the following in your 30 June 2015 financial statements:

- The nature of change (from government to corporate bond rate)
- Amount of the change.

Will public sector entities also have to use the corporate bond rate?

TYPE OF NOT-FOR-PROFIT ENTITY	CORPORATE BOND RATE?
Public sector	No
Private sector	Yes

Not-for-profit **public sector entities** must continue to use the government bond rate as required by AASB 119, paragraph Aus 83.1.

However, from 30 June 2015, other private sector not-for-profit entities will need to use the corporate bond rate.

Where do I find these corporate bond rates?

Quarterly yield curves and rates will be published by Milliman Australia (Milliman), the first being made available for 30 May 2015, which can be used to discount 30 June 2015 employee liabilities.

We will publish the link to the Milliman rates in June 2015 Accounting News.