



ACT
Government

Chief Minister, Treasury and
Economic Development

Mr Ian Carruthers
The Chair
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear Mr Carruthers

Exposure Draft 59 Amendments to IPSAS 25, Employee Benefits

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on Exposure Draft 59 *Amendments to IPSAS 25, Employee Benefits*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC strongly supports the proposed alignment with the requirements of International Accounting Standard (IAS) 19. HoTARAC would also recommend that the IPSASB consider the use of longer-term average interest rates as discount rates for long-term employee benefits.

HoTARAC's response to the specific matters for comment is in the attachment below. If you have any queries regarding our comments, please contact Peter Gibson from the Australian Department of Finance on +61 2 6215 3551 or by email to peter.gibson@finance.gov.au.

Yours sincerely,

David Nicol

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

29 April 2016

HoTARAC Response to the Specific Matters for Comment

Specific Matter for Comment 1 - Do you agree with the proposals in the Exposure Draft for revision of IPSAS 25? If not, please indicate what proposed amendments you do not agree with and provide reasons.

HoTARAC supports a strategy of aligning with the requirements of the International Financial Reporting Standards issued by the International Accounting Standards Board where possible and agrees with the objectives of the proposed amendments.

HoTARAC welcomes the decision to retain some flexibility in the selection of discount rates (paragraph 91) and agrees with paragraph BC8 that entities should determine the interest rate that best reflects the time value of money. HoTARAC believes that Step 1 (i) of the “Process for Reviewing and Modifying IASB Documents” warrants a further departure from the requirement to use spot rates in IAS 19. Spot rates are volatile, resulting in significant fluctuations in employee expenses and long-term employee liabilities. This is of particular relevance to the public sector due to:

- the size of employee liabilities, which often include a large proportion of defined benefit superannuation obligations; and
- the operating surplus being a relatively small proportion of expenses.

This can result in users having difficulty in evaluating the performance of a public sector entity as the impact of policy and operating decisions on surpluses or deficits can be overwhelmed by the effects of such spot rate movements. HoTARAC recommends exploring the use of a longer-term average interest rate to smooth these fluctuations. One HoTARAC member believes this longer-term average should be based on published historical bond rates.

Specific Matter for Comment 2 - IPSAS 25 currently includes a section on Composite Social Security Programs (paragraphs 47-49). The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide a reason for your response along with any proposed revisions.

HoTARAC has no comment as such schemes do not operate in Australia.