Q. Please provide the accounting standard used to determine the discount rate used in respect of calculations of the accrued value of the OPEB obligation.

A. The determination of the discount rate used in respect of calculations of the accrued value of the OPEB obligation is described in Section 3461.050-055 of the CICA Handbook and is provided as Attachment A to this response.

Excerpt from the CICA Handbook
Section 3461.050-055

>> Accounting Handbook
>> Accounting Standards
>> Specific items [Sections 3000 — 3870]
>> 3461 - Employee Future Benefits

SPECIFIC ITEMS
SECTION 3461
employee future benefits

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PURPOSE

.001 This Section establishes standards for the recognition, measurement, and disclosure of the cost of employee future benefits. It requires an entity to recognize the cost of retirement benefits and certain post-employment benefits over the periods in which employees render services to the entity in return for the benefits. Other post-employment benefits are recognized when the event that obligates the entity occurs.

OBJECTIVE AND BASIC PRINCIPLES

.002 The objective of accounting for the cost of employee future benefits is to plan will continue in effect in the absence of evidence that it will not continue.

Discount rate

.050 ♦ *For a defined benefit plan, the discount rate used to determine the accrued benefit obligation should be an interest rate determined by reference to:*

(a) *market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or*

(b) *the interest rate inherent in the amount at which the accrued benefit obligation could be settled.* [JAN. 2000]

.051 The objective of selecting a discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary pre-tax cash flows to pay the accrued benefits when due. For example, the current market value of a portfolio of high-quality zero coupon bonds acquired to pay the cost of benefits, when due, equals the amount of the actuarial present value of the benefits because cash inflows equal cash outflows in timing and amount. There is no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay interest semi-annually or have maturities that do not extend far enough into the future to meet expected benefit payments, the discount rate (the yield to maturity) needs to incorporate reinvestment rates expected to be available in the future. Those reinvestment rates are extrapolated from the existing yield curve at the measurement date.

.052 When rates on high-quality corporate bonds are available, they are used to determine the discount rate. When the maturities of corporate bonds do not extend far enough into the future to match the cash flows inherent in the accrued benefit obligation, the rates on government bonds are used to determine the discount rate for the expected benefit payments that are farther into the future than the corporate bond maturities.

.053 The discount rate reflects the estimated timing of benefit payments. When some benefits are payable after the maturity of all available corporate or government bonds, the present value of that portion of the benefits is unlikely to vary significantly as a result of the selected discount rate. For that portion of the benefits, an entity may use a discount rate based on the yield of the last maturing corporate or government bond available.

.054 The discount rate is re-evaluated at each measurement date. When long-term interest rates rise or decline, the discount rate changes in a similar manner.

.055 Immediate settlement of an accrued benefit obligation may be possible through, for example, the purchase of an insurance contract, such as an annuity contract, that transfers the significant risks associated with the accrued benefit obligation to a third-party insurer. In such circumstances, the interest rate inherent in the amount at which the accrued benefit obligation could be settled may be used in determining the discount rate.

Future changes in compensation levels, benefits and cost sharing

.056 ♦ *For a defined benefit plan, the accrued benefit obligation should be measured on a basis that takes account of:*

(a) *future compensation levels;*

(b) *expected changes in benefits defined in monetary terms;*

(c) *automatic benefit changes specified by the plan that are expected to*