INTERNATIONAL ACTUARIAL ASSOCIATION
Pensions Benefits Accounting Sub-Committee (PBAS) Meeting
Chicago, Illinois, USA

Wednesday, October 04, 2017 – 16:00 – 18:00
Minutes

1. Opening of the meeting

Tim Furlan, chair of PBAS, opened the meeting and welcomed all attendees. He noted that Ciriaco Serluca from Italy has joined the PBAS and offered the sub-committee's welcome.

2. Minutes

The minutes of the last meeting held on 19 April 2017 in Budapest, were approved as presented.

3. Submission to International Auditing and Assurance Standards Board

Tim noted that a joint group from the PEBC, Actuarial Standard Committee and the Insurance Accounting Committee has made an IAA submission to the International Auditing and Assurance Standards Board (IAASB). While the submission was made in response to an exposure draft of amendments to the IAASB's International Standard on Auditing 540 (auditing of accounting estimates) the main purpose of the submission was to open a dialogue on how actuaries and auditors can more effectively work together.

Tom Terry is the IAA representative on the IAASB's Consultative Advisory Group and has been put forward as the main contact to take this forward.

4. IASB amendments to IFRIC 14

Charles Cowling led a discussion on the IASB's deliberations on changes to IFRIC14. The main issue (which is primarily a UK issue) arises where a pension scheme has an IAS19 surplus or it has a committed payment of employer [deficit recovery] contributions which is expected to give rise to an IAS19 surplus - this situation is common in the UK where pension funding targets are typically set at levels which are more prudent/costly then IAS19. Previously this wasn't a concern because (under the current IFRIC14 rules) employers could still claim that the surplus had economic value to shareholders because as the pension scheme carried on as an ongoing entity the [IAS19] surplus would fall back to the employer eventually (eg through a reduction in future contributions). Under the proposed changes to IFRIC14, this economic value to the employer/shareholders is deemed not to apply if pension scheme trustees have the power to buy annuities (in members' names and without winding up the pension scheme) and thus "spend" the surplus before the employer can access it. There is some sympathy for the IASB's views, as in many cases such pension surpluses are not realistic shareholder assets and the "true" economic obligation of the employer to the pension scheme is greater than suggested by IAS19 (at least in the UK). However, the proposed IFRIC14 changes will create somewhat of a

lottery amongst pension schemes depending on the exact wording of the scheme rules and two seemingly identical pension schemes could have very different IFRIC14 outcomes. In turn this will also undermine the broad comparability of IAS19 numbers - as for some pension schemes (maybe 50% of pension schemes in the UK) the accounting numbers would start to be driven by the trustees' funding basis rather than IAS19 assumptions.

Charles updated the committee on the discussions that had taken place between representatives of the IAA and ACA with the IASB and the subsequent discussions and conclusions that had been reached by the IASB. The main conclusion at the moment is that the IASB is conducting further research to understand the impact of the proposed changes to IFRIC14 but still seems minded to press ahead with them, maybe next year.

Action : Charles will discuss with the staff of the IASB the potential for PBAS to assist them in the next steps in the IFRIC 14 process.

5. Update on US Accounting issues

Jim Verlautz provided an update on the FASB's agenda discussions. The FASB has decided not to pursue further amendments to pension accounting given the reduction in DB plans which includes no further convergence toward IAS or revised cash balance plans. Feedback received from Mexico was noted and it was agreed that many companies reporting under US GAAP have non-US subsidiaries in countries where DB plans are prevalent and that the FASB decision also creates issues with the lack of convergence on pension accounting.

Jim also provided an overview of ASU 2017-07 which amends the treatment of pensions for organisations that report operating income in the profit and loss statement.

The FASB has also issues ASC 960/975 which requires updates to financial statements that haven't been issued for any new information effective at the date of the financial statements. Updates could include new mortality tables or other demographic information.

The GASB has just completed a complete revamp of pension accounting for government bodies.

6. Research on hybrid funds

Tim provided a brief recap on the forthcoming IASB hybrid fund project and the broader motivation for undertaking research given the increasing prevelance of hybrid funds.

He provided an overview of the draft outline of a hybrid funds research paper and indicated that the purpose of the discussion was to get any feedback on the scope of the paper, the proposed content and any other matters of concern.

He indicated that he had received feedback from Pentti Soininen raising some questions about the proposed definition of hybrid plans in the outline and the types of hybrid plans listed. The definition in the outline is a plan that has elements of risk sharing and hence is on a spectrum between DB plans with full risk transfer to the employer and DC plans where the individual bears all risks.

He also noted feedback from Ciriaco Serluca indicating that Italy has DC plans with a minimum return underwritted by a third party (e.g. an insurer or fund manager). The view is that these are not hybrid plans.

There was broad agreement that definition of hybrid funds is problematic. In some locations the definition of DB plans is anything that isn't DC. The documents should note the difficulties in definition and not be overly prescriptive.
Similarly the list of types of hybrids funds will never be exhaustive and new arrangements will be invented. The list should be described as examples only.

It was agreed that the content covered broadly the right areas.

The issue of whether arrangement where the employer does not bear any risk, and hence there is no employer accounting implication, should be covered in the paper was discussed, but no firm conclusion was reached.

Action : Members to provide information on country specific hybrid examples

7. Other Business

There was a sharing around the table of various local issues from country representative but no major issues or actions were noted.

8. Next Meeting

The next face to face meetings of the IAA will be in Berlin, Germany, between 30 May and 2 June 2018.

Attendees:

Tim Furlan (chair)
Jason Malone (co-vice chair)
Jim Verlautz (co-vice chair)
Charles Cowling
Richard Deville
Yas Fujii

Observers:

Martin Collins	Vice Chairperson, Banking
Ted Goldman	American Academy of Actuaries
Craig Hanna	American Academy of Actuaries
Rodrigo Ibarra-Jarrin	Ecuadorian Actuarial Association
Koki Iawahara	Japanese Society of Certified Pension Actuaries
Thomas Levy	Canadian Institute of Actuaries
Anne Magnussen	Den Norske Aktuarforening
Bob Scott	Association of Consulting Actuaries Limited
Kenji Sekine	Institute of Actuaries of Japan
Philip Shier	Society of Actuaries in Ireland
Jason Vary	Canadian Institute of Actuaries
Maurice Whyms	Society of Actuaries in Ireland