

# **Key Issues Emerging from the Consultation on a Statement of Intent to Issue an International Standard of Actuarial Practice on IAS 19, Employee Benefits**

Report to the Executive and Professionalism Committees

Prepared by the Actuarial Standards Committee

7 January 2013

## Submission

The Actuarial Standards Committee (ASC) is pleased to submit this report to the Executive Committee and the Professionalism Committee. It summarizes:

- Key issues arising from consultation on a draft Statement of Intent (SOI) to issue an International Standard of Actuarial Practice (ISAP) on IAS 19, Employee Benefits
- The ASC's responses to those issues

We would like to record our thanks to associations and individuals commenting on the draft SOI, and to the members of the IAS 19 Task Force of the ASC who contributed to the preparation of the draft SOI and analysis of comments.

## Exposure of Draft SOI

A [draft SOI](#) was exposed for comment on 6 July 2012 with a comment deadline of 1 October 2012. We received comments from 16 associations and one consulting firm, listed in the [Appendix](#).

A Zoomerang survey tool was provided to facilitate content submission and was used by 16 respondents. The survey asked three questions:

- Do you agree an ISAP is needed on actuarial services in connection with IAS 19?
- Are any of the proposed topics inappropriate for inclusion in an ISAP?
- What other topics should be included in the ISAP?

It also provided a space for additional comments. The full text of all comments is compiled in the report [Summary of Responses to Consultation](#).

## Key issues arising from consultation

### **Broad support for developing a model ISAP**

A clear majority of respondents supported the development of a model ISAP on actuarial services in connection with IAS 19:

- 13 associations were in favor
- Two associations did not expect to adopt the model but indicated they did not oppose its development if other associations needed it or it would enhance the IAA's relationship with the IASB
- One association was opposed, viewing IAS 19 as sufficiently prescriptive that supplemental guidance was not needed.
- One consulting firm was opposed, suggesting guidance for actuaries should be advisory or educational rather than a mandatory standard of practice because actuaries should not be subject to constraints that do not apply to others (including reporting entities and auditors).

## Some concern with multiple standard setting regimes

Some associations in jurisdictions with established standard-setting regimes already have standards governing actuarial services in connection with IAS 19 and do not expect to adopt the model ISAP. Some expressed concern that actuaries working in these jurisdictions may inadvertently be held accountable to multiple requirements. For example, even if these jurisdictions don't adopt the ISAP, auditors may press actuaries to state that their work complies with the model ISAP, requiring them to comply with both the model ISAP and the standards of the jurisdiction where the work is performed.

## Suggestions on content

Respondents provided a variety of suggestions on the content of the model ISAP, with consensus on the following:

- The model ISAP should be principles based.
- The model ISAP should not repeat guidance already provided in ISAP 1 or in IAS 19.
- The model ISAP must recognize that the actuarial profession does not own IAS 19 – actuaries may provide advice but cannot dictate to Reporting Entities or to the IASB or the IFRS Interpretations Committee.
- The model ISAP should not contain educational material; such material is better provided in an International Actuarial Note (IAN).

Several respondents suggested that specific topics listed in the draft SOI should be excluded because they are educational. In addition, specific questions were raised regarding workers compensation.

## ASC Response to Consultation

Given the broad support for developing a model ISAP, the ASC asks the Executive Committee to approve the SOI for a Proposed ISAP on IAS 19 Employee Benefits, authorising the ASC to develop the ISAP.

The SOI reflects the following key changes from the draft SOI exposed for comment on 6 July 2012:

- The scope has been clarified. It now indicates the ISAP will focus on services provided for a reporting entity's preparation of its actual or pro-forma IFRS financial statements, for any type of benefit the reporting entity determines to be covered by IAS 19.
- The content has been narrowed to the following topics:
  - Role of the actuary in providing actuarial services for IAS 19 purposes
  - Knowledge of and compliance with IAS 19, those aspects of other IFRS relevant to the engagement, and the Reporting Entity's accounting policies
  - Knowledge and consideration of the Reporting Entity's specifications regarding materiality for the engagement

- Scope and categorization (for example, as defined benefit or defined contribution) of the contractual and constructive employee benefit obligations as defined in IAS 19
  - General process to be followed and factors to be considered by the actuary when advising a reporting entity on the selection of actuarial assumptions to be used for IAS 19 purposes
  - Identifying “significant” assumptions and their “reasonably possible” variations for the Reporting Entity’s financial statement disclosures
  - Items to be included in the actuary’s communication of results.
- The SOI indicates the following topics – included in content of the draft SOI – are at present better addressed in one or more International Actuarial Notes rather than in an ISAP:
    - Actuarial methods for calculating the economic benefit under the rules governing the asset ceiling
    - Specific actuarial issues surrounding:
      - Attribution of benefits to service
      - Hybrid plans, which combine elements of pure defined benefit and pure defined contribution plans
      - Risk-sharing arrangements, including member contributions and member options
      - Calculation of cost components (such as net interest)
      - Settlement of defined benefit obligations
      - Determination of fair value of plan assets and qualifying insurance contracts
      - Termination benefits
    - Approaches to separating investment management costs from other administration costs (the two types of cost are recognised differently)
    - Approaches for determining the duration of an obligation.

To address concerns regarding workers compensation, the ASC has added two members to the IAS 19 Task Force who have expertise in this area.

Regarding concerns about multiple standard setting regimes, the ASC believes this issue is not unique to the proposed ISAP on IAS 19, and is best addressed by member associations’ involvement in consultation on ISAP exposure drafts with the goal of avoiding any conflicts between ISAPs and local jurisdiction standards. It is also important to note that the ISAPs themselves are model standards that bind only actuaries who state they have complied with them.

## Recommendation

The ASC recommends the approval of the SOI for a Proposed ISAP on IAS 19 Employee Benefits, authorising the ASC to develop the ISAP.

## Appendix – Respondents to the Draft SOI

| <b>Association/Organisation</b>  | <b>Name of person completing response</b> | <b>e-mail address</b>               |
|--|---|-------------------------------------|
| Society of Actuaries (US)  | Martha Sikaras                            | msikaras@soa.org                    |
| Caribbean Actuarial Association  | Ravi Rambarran                            | Ravi_Rambarran@sagicor.com          |
| Society of Actuaries in Ireland  | Yvonne Lynch                              | Yvonne.Lynch@actuaries.ie           |
| American Academy of Actuaries (US)   | Steven Lehmann                            | slehmann@pinnacleactuaries.com      |
| Conference of Consulting Actuaries (US)  | Barbara J. Lautzenheiser                  | lautzenheiser@aol.com               |
| Institute of Pension Actuaries, a branch of the Deutsche Aktuarvereinigung (Germany) | Friedemann Lucius                         | friedemann.lucius@arcor.de          |
| Institute and Faculty of Actuaries (UK)  | Peter Stirling                            | peter.stirling@actuaries.org.uk     |
| Canadian Institute of Actuaries  | Chris Fievoli                             | chris.fievoli@actuaries.ca          |
| The Financial Reporting Council (UK)   | Robert Inglis                             | r.inglis@frc.org.uk                 |
| Suomen Aktuaariyhdistys (Finland)  | Barbara D'Ambroggi-Ola                    | barbara.dambroggi-ola@ilmarinen.fi  |
| Academia de Actuarios de Puerto Rico   | Mareb del Rosario                         | Mareb.delrosario@cfse.gov.pr        |
| Institut des Actuaire (France)   | Elsa Renouf                               | erenouf@scor.com                    |
| Aktuarvereinigung Österreichs (Austria)  | Christoph Krischanitz                     | christoph.krischanitz@arithmetic.at |
| Colegio Nacional de Actuarios AC (Mexico)  | Jose Muriel Delsordo                      | jmuriel@bufetematematico.com        |
| Japanese Society of Certified Pension Actuaries                                      | Hideaki Asami                             | Asami_Hideaki@smtb.jp               |
| Towers Watson  | Alan R. Glickstein                        | Alan.Glickstein@towerswatson.com    |
| Actuarieel Genootschap (Netherlands)   | Roel Willems                              | Monique.Schuilenburg@ag-ai.nl       |