ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

October 28, 2005

Mr. Henry Rees
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
(Email: CommentLetters@iasb.org)

Dear Mr. Rees:

Re: IAA comments on the Exposure Drafts of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and to IAS 19 *Employee Benefits*

In response to the request for comments to the *Exposure Drafts of Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and *to IAS 19 Employee Benefits*, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

We are pleased to provide our commentary on the current important proposal. We hope that you find the attached comments to be of value.

These comments have been prepared by the two accounting committees of the IAA, the members of which are listed by name and association in the Appendix to this submission.

Yours sincerely,

Yves Guérard
Secretary General

Attachment: IAA comments

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THE INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our fifty Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism around the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within, or likely to have an impact upon, the areas of expertise and practice of actuaries.

We are not a trade association and do not represent the interests of either clients or employers. As actuaries, we have developed significant experience and expertise in the assessment of the value of contingent cash flows. Using this experience, actuaries will continue to provide assistance to those involved in the enhancement of financial reporting standards to make them more useful to the users of financial statements.

IAA COMMENTS

Along with other responders to this draft, the IAA appreciates this opportunity to provide input to the IASB regarding the Exposure Drafts of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and to IAS 19 *Employee Benefits.* We commend the continuing, very worthwhile efforts of the IASB to develop globally accepted international financial reporting standards.

IAS 37 Exposure Draft – General comments

We have the following general comments:

1. We believe that the proposal to apply the concept of a "stand ready obligation" is a good one whose implications are consistent with our previous input regarding recognition. We believe that it would be appropriate to discuss this concept in the course of deliberations regarding the IASB *Framework*. As this is a new concept, it may be worth providing further discussion of it in the Basis for Conclusions to IAS 37. Regarding its extension to other areas, such as to liabilities for insurance contracts, further discussion is warranted, since clarification of this concept would be of value.

   In addition, we believe that the appropriate unit of account for the estimates involved in measuring the liabilities within the scope of the proposed amendment is a portfolio of similar obligations rather than a single obligation, although in some cases the portfolio may consist of only a single obligation. Thus, probability remains a highly important element in the measurement process of both the expected value and the risk and uncertainty involved.

2. The IAA believes that the measurement criteria used for liabilities established in accordance with IAS 37 should be consistent with the measurement criteria that will result from the application of phase 2 of the IASB's Insurance Contracts project. As a result, we strongly recommend that, either at the same time or immediately upon finalization of phase 2, the measurement criteria included in IAS 37 be revisited in order for their measurement guidance to be consistent. This is particularly important since IAS 37 is currently the basis for many liability adequacy tests for insurance contracts.

IAS 37 Exposure Draft – IAA Comments regarding questions raised:

Question 1 - Scope of IAS 37 and terminology

The Exposure Draft proposes to clarify that IAS 37, except in specified cases, should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards (see paragraph 2). To emphasize this point, the Exposure Draft does not use 'provision' as a defined term to describe liabilities within its scope. Instead, it uses the term 'non-financial liability' (see paragraph 10). However, the Exposure Draft explains that an entity may describe some classes of non-financial liabilities as provisions in their financial statements (see paragraph 9).

(a) Do you agree that IAS 37 should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards? If not, for which type of liabilities do you regard its requirements as inappropriate and why?

(b) Do you agree with not using 'provision' as a defined term? If not, why not?

IAA response:

(a) We agree that a standard that applies to liabilities not within the scope of other Standards could be useful. Nevertheless, we much prefer that the scope of this standard not be expressed primarily in negative or residual terms, that is, one that does not cover everything not treated elsewhere. We recommend that the IASB identify what should belong in this category rather than what does not belong to any other categories and if possible include a set of criteria for this purpose. There may also be current or future liabilities that are not explicitly covered elsewhere and that might not fit here.

We disagree with the use of the term "non-financial liability". It is potentially both inaccurate and misleading, particularly in comparison with the broad definition of financial liabilities included in IAS 32. That is, recognized liabilities in financial statements that must be measured in financial terms, most of which can be settled financially, are by definition financial in nature. We find this proposed new terminology to inaccurately portray the nature of these liabilities. We prefer the traditional term, "provision". It, at least, is neutral in nature. If the scope continues in its proposed residual form, the expression "other liabilities" might also be considered.

One possible approach to define the scope of "non-financial obligation" or "provision" is a liability which is either (1) not based on a contract, even if it is expected to be settled in cash, or (2) not to be settled in cash, whether or not a contract is involved. In any case, it is clear that many of these obligations involve financial elements. This is still expressed in terms of a negative, but it may serve as a starting point for a better approach.

(b) Although we do not have a strong view regarding whether to avoid the use of the term "provision", it does not seem appropriate, then, to permit a description of "some classes" as provisions. A practice of permitting alternative terms to describe the same item appears to be worse than attempting to dictate prohibition of a term. Of course, if as we suggest, "provisions" is used instead of "non-financial liabilities," then it would be appropriate to define the term here.

In any event, even if "provision" is not a defined term, it is likely to continue in common usage to refer to the amount recognized.

Question 2 - Contingent liabilities

The Exposure Draft proposes to eliminate the term 'contingent liability'.

The Basis for Conclusions on the proposals in the Exposure Draft explains that liabilities arise only from unconditional (or non-contingent) obligations (see paragraph BC11). Hence, it highlights that something that is a liability (an unconditional obligation) cannot be contingent or conditional, and that an obligation that is contingent or conditional on the occurrence or non-occurrence of a future event does not by itself give rise to a liability (see paragraph BC30).

The Basis for Conclusions also explains that many items previously described as contingent liabilities satisfy the definition of a liability in the *Framework*. This is because the contingency does not relate to whether an unconditional obligation exists. Rather it relates to one or more uncertain future events that affect the amount that will be required to settle the unconditional obligation (see paragraph BC23).

The Basis for Conclusions highlights that many items previously described as contingent liabilities can be analysed into two obligations: an unconditional obligation and a conditional obligation. The unconditional obligation establishes the liability and the conditional obligation affects the amount that will be required to settle the liability (see paragraph BC24).

The Exposure Draft proposes that when the amount that will be required to settle a liability (unconditional obligation) is contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events, the liability is recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur). Uncertainty about the future event(s) is reflected in the measurement of the liability recognised (see paragraph 23).

(a) Do you agree with eliminating the term 'contingent liability'? If not, why not?

(b) Do you agree that when the amount that will be required to settle a liability (unconditional obligation) is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability should be recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur)? If not, why not?

IAA response:

(a). We do not have strong feelings regarding the terms used to describe these liabilities. Rather, we are more concerned with the relevance and reliability of the recognition and measurement of liabilities.

(b). We believe that the concept of a stand-ready obligation is superior to the concept underlying contingent liability or conditional obligation. We believe that without recognition of all relevant liabilities with a material value, financial statements cannot present a fair view of the liabilities of an entity.

For example, if we consider the application of a fair value approach, the market would not ignore low probability liabilities of material value. A "probable" recognition criterion is inconsistent with the use of fair value. Even if the measurement objective is not fair value, the same issue arises. If an entity ignores an obligation to make a payment that is conditional on an event that has a 25% chance of occurrence, the accounts would not capture economic reality.

Although we agree that uncertainty should be reflected in the measurement of a liability, this alone does not capture the underlying obligation of an entity. Ignoring economic reality, whether in a fair value world or not, is likely to result in misleading financial reporting.

While the proposed amended standard does not deal with insurance liabilities, it does cover a range of liabilities that can arise both within and outside the context of insurance. These include future cash flows that are conditional on certain future events, such as death, settlement of lawsuits, accident or injury. It is important that there should be no conflict between the treatment applied under IAS 37 and under a new standard for insurance contracts. In the context of insurance, the approach proposed here does not make economic sense.

Nevertheless, we recognize the practical difficulties in many circumstances of assessing obligations that include remote contingencies, for instance, the results of nuisance litigation where there is only a remote probability of success. We would prefer that the IASB focus its attention on an appropriate set of criteria that would avoid recognition of such events.

We also recognize that the use of probability measurement has certain ramifications for the IASB's *Framework*. We recommend that this issue be addressed in the current IASB review of its Conceptual Framework. We believe this is extremely important in the development and maintenance of a consistent, high-quality set of financial reporting standards.

Question 3 - Contingent assets

The Exposure Draft proposes to eliminate the term 'contingent asset'.

As with contingent liabilities, the Basis for Conclusions explains that assets arise only from unconditional (or non-contingent) rights (see paragraph BC11). Hence, an asset (an unconditional right) cannot be contingent or conditional, and a right that is contingent or conditional on the occurrence or non-occurrence of a future event does not by itself give rise to an asset (see paragraph BC17).

The Basis for Conclusions also explains that many items previously described as contingent assets satisfy the definition of an asset in the *Framework*. This is because the contingency does not relate to whether an unconditional right exists. Rather, it relates to one or more uncertain future events that affect the amount of the future economic benefits embodied in the asset (see paragraph BC17).

The Exposure Draft proposes that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of IAS 38 *Intangible Assets* rather than IAS 37 (except for rights to reimbursement, which remain within the scope of IAS 37). This is because such items are non-monetary assets without physical substance and, subject to meeting the identifiability criterion in IAS 38, are intangible assets (see paragraph A22 in the Appendix). The Exposure Draft does not propose any amendments to the recognition requirements of IAS 38.

(a) Do you agree with eliminating the term 'contingent asset'? If not, why not?

(b) Do you agree that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of IAS 38? If not, why not?

IAA response:

(a) As indicated in our response to question 2(a), we do not have strong feelings regarding the terms used to describe the items currently referred to as contingent assets. Rather, we are more concerned with the relevance and reliability of recognition and measurement of the assets. Also, we suggest that it would be preferable that there be symmetry in the terminology used for assets and liabilities.

(b) We believe that the items currently within the definition of contingent assets should be within the scope of the standard where they satisfy the definition of an asset. However, we are not certain that the criteria provided in IAS 38 (in paragraphs 18-24 and 57) are necessarily appropriate for such assets. For instance, IAS 38.12(b) excludes amounts subject to constructive obligations.

It does not seem that a separate standard is warranted for this purpose. We suppose that these could be included in IAS 37 or in IAS 38, although appropriate and positively stated explicit definitions and other explanations would be needed to be added in either standard.

Question 4 - Contingent obligations

The Exposure Draft proposes amending the definition of a constructive obligation to emphasise that an entity has a constructive obligation only if its actions result in other parties having a valid expectation on which they can reasonably rely that the entity will perform (see paragraph 10). The Exposure Draft also provides additional guidance for determining whether an entity has incurred a constructive obligation (see paragraph 15).

(a) Do you agree with the proposed amendment to the definition of a constructive obligation? If not, why note? How would you define one and why?

(b) Is the additional guidance for determining whether an entity has incurred a constructive obligation appropriate and helpful? If not, why not? Is it sufficient? If not, what other guidance should be provided?

IAA response:

(a) We do not have a strong opinion regarding the proposed amendment to the definition of a constructive obligation. We note that the proposed change does not appear to make a substantive change in the application of a constructive obligation. Nevertheless, we do not believe that it is necessary to change an existing definition to increase the emphasis of the wording used. Based on our understanding of the current definition, the addition of “present” and “past” does not substantially change the meaning from that currently applied. Such emphasis could equally be provided through a clear discussion of the standard, either in the Basis for Conclusions or Application Guidance.

(b) We believe that it would be helpful if it would be made clear that the criteria given in paragraph 15(b) can include implicit, as well as explicit obligations. For example, participation in certain markets should be recognized as an implicit indication of an intention to follow the norms of that market. In addition, constructive obligations can be created by past behavior rather than only by a contract. It is not sufficient that there be

an intention by the potentially obligated party; rather, there should also be a clear and observable expectation of the counter-party.

We believe that many of the examples provided will be quite useful to illustrate the application of IAS 37. However, it appears that several of the examples provide conflicting guidance. For example, Example 1 appears to indicate that the obligation arises when another party makes a claim, because before that happens the entity is not aware that a past event has occurred. On the other hand, Example 2 appears to indicate that the obligation arises when the entity becomes aware that it has caused an injury, although it does properly identify the operation as being the past event. These examples should be enhanced with further discussion, since the triggering event should be the time of the operation in this instance or the sale of the harmful good in a warranty example. The unconditional obligation arises at the time that the product or service is provided.

It would be appropriate for estimates of the liability to be made regarding the amount of the expected obligation, even though subsequent events, such as the filing of a lawsuit, have not yet occurred. In these cases, both recognition and measurement should be treated in the same manner as an insurer would if the exposure to risk had been transferred under an insurance contract if one had been purchased to cover such an obligation. The decision to purchase insurance should be based upon the economics of the contract rather than the differences in accounting between the two options (to insure or not to insure). In other words, it is appropriate for a self-insured to accrue 'incurred but not reported' liabilities where applicable.

We note that the discussion of constructive obligations in the Basis for Conclusions does not discuss whether the concept of constructive obligations includes commercial necessity, expressed in terms of the effect of competition and commercial constraints. We believe that the application of this concept would benefit from such a discussion.

Question 5 – Probability recognition criterion

The Exposure Draft proposes omitting the probability recognition criterion (currently in paragraph 14(b) from the Standard because, in all cases, an unconditional obligation satisfies the criterion. Therefore, items that satisfy the definition of a liability are recognised unless they cannot be measured reliably.

The Basis for Conclusions emphasizes that the probability recognition criterion is used in the *Framework* to determine whether it is probable that settlement of an item that has previously been determined to be a liability will require an outflow of economic benefits from the entity. In other words, the *Framework* requires an entity to determine whether a liability exists before considering whether that liability should be recognised. The Basis notes that in many cases, although there may be uncertainty about the amount and timing of the resources that will be required to settle a liability, there is little or no uncertainty that settlement will require some outflow of resources. An example is an entity that has an obligation to decommission plant or to restore previously contaminated land. The Basis also outlines the Board's conclusion that in cases previously described as contingent liabilities in which the entity has an unconditional obligation and a conditional obligation, the probability recognition criterion should be applied to the unconditional obligation (i.e. the liability) rather than the conditional obligation.

So, for example, in the case of a product warranty, the question is not whether it is probable that the entity will be required to repair or replace the product. Rather, the question is whether the entity's *unconditional* obligation to provide warranty coverage for the duration of the warranty (ie to stand ready to

honour warranty claims) and probably result in an outflow of economic benefits (see paragraphs BC37 – BC41).

The Basis for Conclusions highlights that the *Framework* articulates the probability recognition criterion in terms of an outflow of economic benefits, not just direct cash flows. This includes the provision of services. An entity's unconditional obligation to stand ready to honour a conditional obligation if an uncertain future event occurs (or fails to occur) is a type of service obligation. Therefore, any liability that incorporates an unconditional obligation satisfies the probability recognition criterion. For example, the issuer of a product warranty has a certain (not just probable) outflow of economic benefits because it is providing a service for the duration of the contract, i.e. it is standing ready to honour warranty claims (see paragraph BC42-BC47).

Do you agree with the analysis of the probability recognition criterion and therefore, with the reasons for omitting it from the Standard? If not, how would you apply the probability recognition criterion to examples such as product warranties, written options and other unconditional obligations that incorporate conditional obligations?

IAA response: We believe that the proposal to apply the concept of a "stand ready obligation" is a good one whose implications are consistent with our previous input regarding recognition. We believe that it would be appropriate to discuss this concept in the course of deliberations regarding the IASB *Framework*. As this is a new concept, it may be worth further discussion in the Basis for Conclusions to IAS 37. Regarding its possible extension to other areas, such as to liabilities for insurance contracts, further discussion is warranted, since clarification of the application of this concept should prove to be of value.

Question 6 – Measurement

The Exposure Draft proposes that an entity should measure a non-financial liability at the amount that it would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date (see paragraph 29). The Exposure Draft explains that an expected cash flow approach is an appropriate basis for measuring a non-financial liability for both a class of similar obligations and a single obligation. It highlights that measuring a single obligation at the most likely outcome would not necessarily be consistent with the Standard's measurement objective (see paragraph 31).

Do you agree with the proposed amendments to the measurement requirements? If not, why not? What measurement would you propose and why?

IAA response: We generally agree with the concepts underlying the proposed changes. This, in essence, indicates that the portfolio or aggregation of obligations is the appropriate unit of account. Alternatively, the probability recognition criteria can be used to recognize the liability of a single obligation, without having to rely on the most likely outcome, that is an inappropriate and possibly misleading conclusion ("the most likely outcome" is the statistical 'mode', which, in certain circumstances might be equal to the probability weighted expected value, but in many cases it would not). For example, with regards to the obligation associated with a product warranty, an individual product may have a less than 50/50 chance of resulting in a warranty claim. It is appropriate to recognize a liability for a product warranty of such a product, as long as it can be reliably measured.

However, in practice, the changes in the measurement requirements should not be expected to result in much, if any, change in the practical measurement of provisions. We do, however, have a problem with the way in which it is expressed. We believe that the use of the term "or" in paragraph 29 provides a choice in circumstances that, if both options are available, does not provide sufficient guidance. While we agree that in many cases the results of the two measurement approaches could lead to the same result, this is not always the case.

Although we believe that it is appropriate to provide for these obligations on the basis of expected future cash flows, with appropriate risk adjustment and discounting, we believe that the Board may be setting a precedent that might bias the considerations with respect to the future measurement of insurance liabilities. This decision should be deferred until the conclusions of the IASB's projects on Insurance Contracts and financial instruments are reached.

The IAA believes that the measurement criteria used for liabilities established in accordance with IAS 37 should be consistent with the measurement criteria that will result from the application of phase 2 of the IASB's Insurance Contracts project. As a result, we strongly recommend that, either at the same time or immediately upon finalization of phase 2, the measurement criteria included in IAS 37 be revisited in order for their measurement guidance to be consistent. This is particularly important since IAS 37 is currently the basis for many liability adequacy tests for insurance contracts.

As is currently being discussed in the insurance contracts project, a key issue is the incorporation of an appropriate risk adjustment. We do not believe that sufficient guidance is provided here to provide for a consistent approach to this measurement element. We believe that such guidance, if not provided in conjunction with this revision to IAS 37, should be provided in the future in a manner consistent with the guidance to be developed in conjunction with future revisions to IFRS 4 (through phase 2 of the Insurance Contracts project).

Expenses associated with the settlement of an obligation are appropriately reflected in the measurement of the liability associated with an obligation. For example, if a product liability exposure is transferred, either to an insurer or to another party, it is highly likely that this expense would be included in "the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time" appropriate to reflect the fact that a third party has to bear the cost of settlement of any such claim. Another example is the expense associated with an outside attorney to litigate a potential lawsuit. This is a necessary expense that is referred to in the insurance industry as a loss adjustment or claim settlement expense. Current practice is mixed, in that in some cases external (to the entity) expense is included in the liability while in certain of those cases internal expenses are also included in such a liability. It may be appropriate to clarify the treatment of this expense to provide enhanced uniformity of practice. We recognize that this type of measurement issue was not the subject of the proposed amendment. Nevertheless, it is another example of a topic that should be consistent with the treatment in the completed phase 2 of the Insurance Contracts project.

Question 7 – Reimbursements

The Exposure Draft proposes that when an entity has a right to reimbursement for some or all of the economic benefits that will be required to settle a non-financial liability, it recognizes the reimbursement right as an asset if the reimbursement right can be measured reliably (see paragraph 46).

Do you agree with the proposed amendment to the recognition requirements for reimbursements? If not, why not? What recognition requirements would you propose and why?

IAA response: We agree that an entity should recognize a reimbursement right as an asset if it can be measured reliably. We note, however, that it may not be appropriate to include this requirement in a standard that deals primarily with liabilities. A right to reimbursement is by definition a financial asset. It should be sufficient to clarify that such reimbursement rights should not be offset, since they are the rights of another party without legal offset, as given in paragraphs 48 and 49. We note that the guidance in paragraph 50 seems inconsistent with IFRS 4.14(d), without apparent justification, although it is noteworthy that IFRS 4.14(d) is inconsistent with US GAAP.

Measurement of reimbursement rights should be consistent with that of applicable contractually related expenses. All offsetting rights should be measured in a consistent manner to avoid an accounting mismatch. Any such guidance should be expanded to cover measurement subsequent to initial recognition. This could be accomplished in a separate standard. It should also be consistent with the treatment of salvage and subrogation in the context of insurance contracts.

Question 8 – Onerous contracts

The Exposure Draft proposes that if a contract will become onerous as a result of an entity's own action, the liability should not be recognised until the entity takes that action. Hence, in the case of a property held under an operating lease that becomes onerous as a result of the entity's actions (for example, as a result of a restructuring) the liability is recognised when the entity ceases to use the property (see paragraphs 55 and 57). In addition, the Exposure Draft proposes that, if the onerous contract is an operating lease, the unavoidable cost of the contract is the remaining lease commitment reduced by the estimated sublease rentals that the entity could reasonably obtain, regardless of whether the entity intends to enter into a sublease (see paragraph 58).

(a) Do you agree with the proposed amendment that a liability for a contract that becomes onerous as a result of the entity's own actions should be recognised only when the entity has taken that action? If not, when should it be recognised and why?

(b) Do you agree with the additional guidance for clarifying the measurement of a liability for an onerous operating lease? If not, why not? How would you measure the liability?

(c) If you do not agree, would you be prepared to accept the amendments to achieve convergence?

IAA response:

(a) We agree that a liability for a contract that becomes onerous as a result of the entity's own actions should only be recognized when the actions are taken. This guidance is consistent with the concept of a constructive obligation because it requires occurrence of a past event to recognize the liability.

The past event is the irrevocable action of management. We believe it important to note that there may also be a range of possible outcomes, each with an associated probability. If these probabilities change as a result of a voluntary action of the entity, the change should only be reflected when and if the action is taken. However, in assessing the original probabilities account should be taken of any actions that the entity may be constrained to take.

Not all obligations are binary in nature; a contract may be onerous only under certain conditions. We believe that probabilities of a change in condition should be recognized and reflected.

(b) In general, we agree with the guidance provided. However, it appears to focus only on contractual obligations. Indirect penalties should also be considered if they can be reliably measured. An example of an indirect penalty is that walking away from a supply contract may cost more, in terms of the damage to the entity's reputation as a reliable supplier, than the difference between the cost of fulfilling the contract and any direct penalty for walking away from it. It is arguable whether commercial necessity should be considered in determining when the contract is onerous and if so, its value.

Question 9 – Restructuring provisions

The Exposure Draft proposes that non-financial liabilities for costs associated with a restructuring should be recognised on the same basis as if they arose independently of a restructuring, namely when the entity has a liability for those costs (see paragraphs 61 and 62).

The Exposure Draft proposes guidance (or provides cross-references to other Standards) for applying this principle to two types of costs that are often associated with a restructuring: termination benefits and contract termination costs (paragraphs 63 and 64).

(a) Do you agree that a liability for each cost associated with a restructuring should be recognised when the entity has a liability for that cost, in contrast to the current approach of recognizing at a specified point a single liability for all of the costs associated with the restructuring? If not, why not?

(b) Is the guidance for applying the Standard's principles to costs associated with a restructuring appropriate? If not, why not? Is it sufficient? If not, what other guidance should be added?

IAA response:

(a) We agree that the accounting for a restructuring should be consistent with the guidance for accounting for similar liabilities. The elements of a restructuring should be recognized when each element satisfies the criteria as a liability, not at a single point in time. This is also reasonable as it converges with U.S. GAAP standards. It may be appropriate to provide for a consistent provision for disclosures with regard to a restructuring.

IAS 19 Exposure Draft – IAA Comments regarding questions raised:

Question 1 – Definition of termination benefits

The Exposure Draft proposes amending the definition of termination benefits to clarify that benefits that are offered in exchange for an employee's decision o accept voluntary termination benefits only if they are offered for a short period (see paragraph 7). Other employee benefits that are offered to encourage employees to leave service before normal retirement date are post-employment benefits (see paragraph 135).

Do you agree with this amendment? If not, how would you characterise such benefits, and why?

IAA response: The amendment, distinguishing between an event offered for a short period and other benefits offered to encourage employees to leave service before normal retirement date, is appropriate. However, we believe the standard would be enhanced by having a concise definition of what constitutes a "short period".

Question 2 – Recognition of termination benefits

The Exposure Draft proposes that voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits (see paragraph 137). It also prposes that involuntary termination benefits, with the exception of those provided in exchange for employees' future services, should be recognised when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria (see paragraph 138).

In recognition of a liability for voluntary and involuntary termination benefits at these points appropriate? If not, when should they be recognised and why?

IAA response: We believe recognition of a liability for voluntary and involuntary termination benefits at the points mentioned to be appropriate.

Question 3 – Recognition of involuntary termination benefits that relate to future service

The Exposure Draft proposes that if involuntary termination benefits are provided in exchange for employees future services, the liability for those benefits should be recognised over the period of the future service (see paragraph 139). The Exposure Draft proposes three criteria for determining whether involuntary termination benefits are provided in exchange for future services (see paragraph 140).

Do you agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services? If not, why not and what criteria would you propose? In these cases, is recognition of a liability over the future service period appropriate? If not, when should it be recognised and why?

IAA response: We agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services.

There is merit in recognizing the liability for such benefits over the future service period. We are, however, concerned that this might lead to different recognition of two otherwise identical benefit arrangements depending on whether they are considered voluntary or involuntary. We encourage the IASB to strive for consistency. We encourage you to refer to the response provided to you by the German IVS (part of the German Actuarial Association, which is a member association of the IAA), which provides a specific example of the potentially inconsistent approaches relating to Altersteilzeit Early Retirement Programs (ATZ) arrangements in Germany.

Appendix

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Appendix

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Gary Hibbard	Institute of Actuaries
Esko Kivisaari	Suomen Aktuaariyhdistys
José Roberto Montello	Instituto Brasileiro de Atuária (IBA)
Liam Francis Quigley	Society of Actuaries in Ireland
Anne Grete Steinkjer	Den Norske Aktuarforening
Wilfried Van Messem	Association Royale des Actuaires Belges
Joan Angel Vergés Guerra	Col.legi d'Actuaris de Catalunya

Appendix

Full Member Associations of the IAA

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaires Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
Hrvatsko Aktuarsko Društvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Ceská Spolecnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Actuarial Society of India (India)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Singapore Actuarial Society (Singapore)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of the Republic of China (Taipei)

Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)