ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on Exposure Draft

Submission

The IAS 19 Task Force of the ASC is pleased to submit this report. It documents the comments we received on the exposure draft of ISAP 3 (“ED”) and how we addressed those comments.

We would like to record our thanks to those commenters, both organizational and individual.

Preamble

The ED along with the amendments to the Glossary for the ED was published on the IAA website on 23 October 2013 with a comment deadline of 14 March 2014. A transmittal memo was published concurrently which requested answers to six specific questions. An MSWord template was provided to submit comments.

This report outlines the answers to our questions and other comments we received on the ED and what we did as a result. It is organized into four sections:

I. List of comments we received on the ED.

II. Summary of the answers we received to our six questions.

III. Summary of the comments received and our responses in six areas that occurred in several comments.

IV. Detailed paragraph by paragraph summary of the comments received and our responses.

This report was drafted by the IAS 19 Task Force of the ASC and reviewed and edited by the ASC. Throughout the document “we” means the ASC.

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I. List of comments we received on the ED

We received the following comments which can be viewed in their entirety on the IAA website at http://www.actuaries.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=STANDARDS_EXPOSURE-ISAPIAS19.

Letter Number	Submitted By	Date Received
1	Actuarial Standards Board - US	21-Feb-14
2	Ralph S Blanchard III	24-Feb-14
3	Canadian Actuarial Standards Board	25-Feb-14
4	The Institute of Actuaries of Australia	26-Feb-14
5	Financial Reporting Council	28-Feb-14
6	Canadian Life and Health Insurance Association Inc.	06-Mar-14
7	Svenska Aktuarieföreningen – Swedish Actuarial Association	07-Mar-14
8	The Japanese Society of Certified Pension Actuaries & The Institute of Actuaries of Japan	10-Mar-14
9	Society of Actuaries in Ireland	11-Mar-14
10	German Institute of Pension Actuaries (IVS)	12-Mar-14
11	Colegio Nacional de Actuarios	12-Mar-14
12	Koninklijk Actuarieel Genootschap	13-Mar-14
13	Caribbean Actuarial Association	13-Mar-14
14	Aon Hewitt	13-Mar-14
15	Institute of Actuaries of Korea	13-Mar-14
16	Actuarial Society of South Africa	14-Mar-14
17	Towers Watson	14-Mar-14
18	Canadian Institute of Actuaries	14-Mar-14
19	Mercer Limited	14-Mar-14
20	Hungarian Actuarial Society	14-Mar-14
21	Istituto Italiano degli Attuari	14-Mar-14
22	Personal Comments: Giovanna Ferrara, Gennaro Olivieri, Elsa Pettorrusso, Simona Salvarezza, and Federica Zappari	14-Mar-14
23	Institute and Faculty of Actuaries	14-Mar-14
24	Casualty Actuarial Society	14-Mar-14
25	Institut des actuaires	17-Mar-14
26	Norwegian Actuarial Association	17-Mar-14

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II. Summary of the answers we received to our six questions

We asked the following questions in the transmittal letter for the ED. Each question is followed by a summary of the responses we received. Only five commenters answered the questions fully; others answered them implicitly in their responses.

1. Is the guidance clear and unambiguous? If not, how should it be changed?

   10 commenters said yes. 3 did not answer the question. The remaining 13 said yes but with some suggested changes.

2. Is the guidance sufficient and appropriate? If not, how should it be changed?

   6 commenters said yes. 3 did not answer the question. The remaining 17 said yes, with some suggested changes.

3. Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1? If not, how should it be changed?

   15 commenters said yes. 3 did not answer the question. The remaining 8 said yes, with some suggested changes.

4. Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?

   7 commenters said yes. 3 did not answer the question. Several commenters said there was too much detail in paragraph 2.6.3. Discount Rate Assumption. Some commenters felt there should be more detail in a few other areas.

5. The proposed ISAP does not currently provide specific guidance to actuaries advising the reporting entity on the information that should be included in the IFRS report to meet IAS 19's disclosure objectives (the appendix contains educational material on these disclosures). Should the ISAP be expanded to provide guidance in this area? If so, what should the guidance be?

   The responses generally said that the ISAP should not be expanded.

6. Are there other matters that should be included in this standard on actuarial work in connection with IAS 19 Employee Benefits? Are there some included here that should not be?

   The following suggestions were made for inclusions;

   - guidance for self-insured workers compensation
   - guidance on projected unit credit method
   - Methods
   - Projections
   - Roll forward
   - distinguishing between actuaries responsible for calculating the IAS19 results and actuaries responsible for collating the consolidated figures produced by, potentially, a number of other actuaries

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The TF concluded that guidance on projected unit credit or other methods and projections was not appropriate for an ISAP and should be covered in educational material. The TF made changes to the ISAP to cover the other points.

III. Summary of general comments received and our responses

We identified several themes in the general comments we received that we judged significant and addressed them first. A summary of the thematic responses are shown first followed by other general comments along with our responses to all. Identification of thematic responses was intended both to assist the ASC and its IAS 19 Task Force in taking a consistent approach to the many comments received and to assist readers of this document in getting a high-level view of both the comments received and how they were addressed. We considered each comment seriously. We believe that the edits made to the ED, as detailed in section IV of this report, demonstrate this.

a. Thematic response: Level of detail	
Summary of Comments	Several commenters said the ED was overly detailed in some areas, particularly in paragraph 2.6.3. Discount Rate Assumption. In some areas, the ED unnecessarily restricts practice by being too prescriptive. It was suggested to move some of the details to an educational note. Some commenters requested for more detail in some areas.
Response	We have reviewed the level of detail in each paragraph during the re-drafting process and removed or added material to achieve a balance. The level of detail in paragraph 2.6.3. has been significantly reduced.

b. Thematic response: Scope	
Summary of Comments	Several commenters said that the scope of the proposed ISAP is too narrow; the ISAP should recognize different actuarial roles for preparer, consolidator, auditor etc. Others questioned whether this standard applies when all actuarial methods and assumptions are prescribed, for example by a coordinating actuary.
Response	After consideration, the focus of the ED remains on services provided for a reporting entity’s preparation of actual or pro-forma IFRS financial statements. However, the following sentence has been added at the end of paragraph 1.2. Scope: “Actuaries providing actuarial services in connection with IAS 19 that are outside of this focus (for example, an actuary advising an auditor or advising a potential buyer regarding an acquisition) should consider the guidance in this ISAP to the extent relevant to the assignment.” As per paragraph 1.2., the ISAP applies to actuaries working directly with the reporting entity and also to actuaries working indirectly through a coordinating actuary.

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c. Thematic response : Use of professional judgment	
Summary of Comments	Reference to use of "professional judgment" in many paragraphs seems redundant. The actuary should always exercise professional judgement and provide services with due competence and care. The ED didn't provide any guidance on how professional judgment is to be exercised.
Response	We have taken this into consideration in the revised draft, but continued to use the phrase where we considered it to be appropriate.

d. Thematic response: Opining on prescribed methods and assumptions	
Summary of Comments	Several commenters raised concerns about the requirement for the actuary to opine on assumptions in all cases. For example, this is difficult when the actuary has to recommend an appropriate discount rate when the longest duration of an available government debt is a one year treasury bill.
Response	We have taken this into consideration when redrafting paragraph 2.6., and have amended the wording of section 1.3. Compliance to suit the subject matter of this ISAP appropriately.

e. Thematic response: Quoting versus paraphrasing provisions of IAS 19 and repetition of the requirements of IAS 19.	
Summary of Comments	Two commenters commented on this and suggested quoting IAS 19 verbatim where required and reconsidering if the level of repetition is required.
Response	We have taken this into consideration when redrafting the ED. Because the relevant guidance in IAS 19 is contained in several paragraphs, quoting IAS 19 is generally not practical.

f. General comment: Knowledge and understanding of (all) other relevant IFRS standards	
Comment	The proposed guidance implies that actuaries have a responsibility to determine whether, in providing their 'actuarial services' to the principal or reporting entity, the approach followed, including the accounting policies adopted, complies with IAS 19 or other IFRSs. This is not the actuary's responsibility, and in many cases will not be possible.

Response	We agree and have removed such language when redrafting the ED.
g. General comment: Insert wording from ISAP 1 rather than referencing ISAP 1.	
Comment	Given the potential for this standard to be needed in all jurisdictions, including those that have established actuarial standard structures, it would probably be more useful to the worldwide profession if it inserted the wording from ISAP 1 (with appropriate reference), rather than referencing ISAP 1. The current approach makes it difficult to be used by an actuary (or a standard setter) in a jurisdiction with established actuarial standards.
Response	After some debate we decided to reference ISAP 1 and not quote from ISAP 1. Some paragraphs (e.g. 2.3. Material Errors, Omissions or Material Nonconformance) have been deleted where they were considered to duplicate guidance in ISAP 1. References to ISAP 1 have been clarified by including paragraph numbers and titles.

h. General comment: Use terms consistently	
Comment	When terms are used, consistency with IAS19 should be confirmed. For example: 2.6.1. employment data -> employment market data APPENDIX balance sheet -> statement of financial position Income statement -> profit or loss
Response	We agree and have made the changes, except for ‘employment data’ which is used as an example of information on market-implied expectations, so ‘market’ would be redundant.

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IV. Paragraph by paragraph summary of the main comments received and our responses.

Many commenters suggested editorial changes to the ED. We have considered all such suggestions and adopted those that we felt improved clarity. Such suggestions are not detailed below.

Preface	
Comment	There is confusion regarding when ISAPs are binding on actuaries and when they are not.
Response	We have clarified when the standard is binding and when it is not in the preface and introduction.
Introduction	
Comment	Given the diverse nature of employee benefit plans within and across jurisdictions, we do not consider that convergence in actuarial practice should be the prime intention of the ISAP.
Response	This was part of the SOI. One of the reasons to have ISAPs is to facilitate convergence in actuarial practice. We believe that the principles in this ISAP apply to all employee benefit plans however diverse they are. No change was made.
Paragraph 1.3. Compliance	
Comment	We received several comments on paragraph 1.3. Among other issues, commenters noted that accounting standards (included in the Glossary's definition of "law") impose obligations on reporting entities – not on actuaries.
Response	We edited 1.3. in response to these comments, by inserting an explanatory comment of divergence from ISAP 1 and deleting the first sentence in 1.3.1. and 1.3.2., respectively.
Paragraph 1.4. Relationship to ISAP 1	
Comment	Recommend that this be deleted. If FMAs don't fully accept ISAP 1 but only declare their standards as "substantially equivalent", referral by other ISAPs to "all of ISAP 1" may pose a problem.
Response	We retained the paragraph since we feel it is important. We have clarified the preface to indicate that ISAP 1 is assumed to apply by every subsequent ISAP and added a sentence to improve clarity.
Paragraph 1.6. Cross References	
Comment	Several commenters pointed out that modification to IAS 19 has taken place after publication of the ED and the wording in this paragraph and the Glossary should be updated accordingly.

Response	We have made changes to paragraph 1.6. and the Glossary to refer to IAS 19 including any interpretations from the International Financial Reporting Interpretations Committee or the Standing Interpretations Committee thereon, as issued through [mmm 2014]. If IAS 19 is subsequently amended, restated, revoked, or replaced after [mmm 2014], the actuary should consider the guidance in the ISAP to the extent it remains applicable and appropriate.
Paragraph 2.1. Knowledge of Accounting Requirements	
Comment	Two commenters suggested that the actuary should also have or obtain sufficient knowledge of IFRS Interpretations Committee interpretations that specifically relate to IAS 19.
Response	We revised the paragraph to include "IFRSs that are interpretations of IAS 19" in the list of relevant documents about which the actuary should be knowledgeable.
Comment	One commenter suggested stating "The actuary should seek advice and treat the advice as information to which paragraph 2.3. of ISAP 1 applies".
Response	We accepted this suggestion and added appropriate wording in paragraph 2.1.
Paragraph 2.2. Materiality	
Comment	Two commenters called for clarity on the correlation between materiality with respect to actuarial services and materiality with respect to the IFRS report. One commenter said that paragraph 2.2.2. seems to extend the actuary's responsibility beyond the minimum information that an actuary needs to furnish. A suggestion was made to bring Proportionality and Materiality together and harmonize the wording.
Response	We considered all the comments and made changes to this paragraph. We moved paragraph 2.9. on Proportionality to follow paragraph 2.2.
Paragraph 2.3. (in Published ED, now deleted) - Material Errors, Omissions, or Non-conformance	
Comment	Several commenters pushed back strongly on the notion that the actuary should be opining whether the reporting entity's practices conform to IAS 19 or other relevant IFRSs: this is the auditor's job, not the actuary's. One commenter suggested "a more useful requirement may be for the actuary to consult with the client regarding any interpretation concerns (as opposed to requiring a resolution) and that the interpretation in question be clearly disclosed in the report".

Response	We agree with the commenters and have deleted this paragraph in the revised ED. The interpretation concept is already captured in paragraph 2.1. Knowledge of Accounting Requirements. ISAP 1 paragraph 2.5. Data Quality covers the rest of the data quality issues.
Paragraph 2.3. Proportionality (formerly 2.9. in the published ED)	
Comment	Several commenters suggested the guidance on proportionality could be better coordinated with both the guidance on materiality and the guidance on proportionality provided by ISAP 1. One commenter indicated the guidance in ISAP 1 was sufficient and the paragraph on proportionality should be deleted.
Response	After considering all the comments, we concluded it was helpful to retain guidance on proportionality in the context of actuarial services under IAS 19. We moved this paragraph to immediately follow paragraph 2.2. Materiality, and revised the text to clarify that this paragraph is providing examples of how an actuary providing actuarial services in connection with IAS 19 might apply the concept of proportionality, as introduced in ISAP 1, paragraph 1.5.2.
Paragraph 2.4. Constructive Obligations	
Comment	One commenter suggested deleting the reference to paragraph 2.3. Material Errors, Omissions, or Non-conformance, and replacing it by copying the words from that paragraph that say “If such a matter is discovered and not resolved in a satisfactory way before the actuary issues the report, the actuary should disclose the matter in the report.” Another commenter said it was unclear why the second paragraph in 2.4. called for special attention over and above what was said in paragraph 2.3. Material Errors, Omissions, or Non-conformance. That commenter also said it should be made explicitly clear in the text that the principal – not the actuary – is ultimately responsible for determining whether the formal or informal practices give rise to a constructive obligation.
Response	We agree in general and made changes to the first and second paragraphs (and also deleted paragraph 2.3., as discussed above).
Paragraph 2.5. Categorization of Employee Benefit Plan	
Comment	The responsibility of other parties should always be disclosed in the report. The Standard should definitely express this requirement as it does in 2.4. Inclusion of “The actuary should disclose reliance on such representations in the report.” would be beneficial.

Response	We have made changes to paragraph 2.5., removing former subparagraph 2.5.2. for the same reasons that paragraph 2.3. Material Errors, Omissions, or Non-conformance in the ED was deleted, and adding a new subparagraph 2.5.3. indicating the actuary should treat the reporting entity's categorization of its employee benefit plans as a prescribed methodology to which ISAP 1 paragraph 2.8. Assumptions and Methodology Prescribed, applies.
Paragraph 2.6 and its Subparagraphs – Actuarial Assumptions	
Comment	Paragraph 2.6. and its subparagraphs received the largest volume of comments. The concerns with this paragraph included the following: • In general, many commenters felt there was too much detail (particularly in subparagraph 2.6.3. Discount Rate Assumption) and repetition of what is in IAS 19, and the ED was unclear whether various lists of factors or information to be considered were intended to be exclusive, all-encompassing lists, or were merely examples of the types of factors or information the actuary should consider. • With respect to subparagraph 2.6.1. General Approach for Selecting Assumptions, – Some commenters found the wording of subparagraph 2.6.1.c. confusing. – One commenter questioned how an actuary could conclude that an assumption "would be appropriate to represent the reporting entity's best estimate" – as required by subparagraph 2.6.1.d. – and suggested a better standard would be for the actuary to believe the assumptions are reasonable for the purpose of the measurement. • In addition to the general suggestion to reduce the level of detail, many useful comments were received on subparagraph 2.6.3. Discount Rate Assumption, including the following: – The ED appeared to require the actuary to use either a yield curve or a simplified approach, thus precluding the use of bond models – which are neither yield curves nor simplified approaches – and also the development of new, non-simplified methods; the standard should specifically recognize bond models as an appropriate method and also mention that other methods may be reasonable, even if not simplified. – The full yield curve may be used directly to calculate defined benefit obligations and service cost; there is no need to determine an equivalent single weighted-average rate. – Additional guidance is needed for areas such as the Caribbean where there are no high quality corporate bonds or government bonds consistent with both the currency and estimated term of the employee benefit obligation. • Guidance on medical cost assumptions should be provided in a separate

	subparagraph, rather than being buried in subparagraph 2.6.5. Assumptions Regarding Changes in Employee Benefit Levels. • With respect to Subparagraph 2.6.7. Using Prescribed Assumptions, one commenter indicated the actuary should not be required to opine on whether prescribed assumptions conform to IAS 19 – this is the auditor's job. Another suggested this subparagraph should be deleted as it adds nothing to existing guidance in ISAP 1.
Response	We have considered all the comments carefully and significantly reduced the level of detail in paragraph 2.6. and its subparagraphs. In the revision, we believe we have maintained a reasonable balance in the level of detail without being overly descriptive or repeating what is in IAS 19. Key changes are as follows: • Paragraph 2.6. Actuarial Assumptions, has been modified to eliminate repetition of IAS 19. A sentence has been added indicating actuaries using prescribed assumptions should be guided by ISAP 1 paragraph 2.8. Assumptions and Methodology Prescribed, and former subparagraph 2.6.7. Using Prescribed Assumptions, has been deleted. • Subparagraph 2.6.1.c. has been rewritten for clarity. • Subparagraph 2.6.1.d. has been modified to clarify the considerations that the actuary should take into account when recommending assumptions. • Subparagraph 2.6.3. Discount Rate Assumption, has been rewritten, reducing the detail on bond characteristics, while expanding the discussion of possible methods for selecting a discount rate and clearly indicating the methods listed are examples of acceptable approaches – not an exclusive list. In particular, we have added the use of a bond model and clearly distinguished between using the full yield curve to discount projected cash flows and selecting a single weighted-average discount rate based on the yield curve. We have also expanded the guidance in 2.6.3.a.ii. to provide that the actuary may take into account "yields on government or corporate bonds in other currencies with market-observable yields at durations beyond the longest duration bond in the same currency as the employee benefits and which the actuary, having applied professional judgment, considers appropriate for this purpose." • New subparagraph 2.6.5. Medical Cost Assumptions, provides guidance to actuaries advising the principal on the selection or reasonableness of medical cost assumptions • Former subparagraph 2.6.6. Assumptions Select for Other Purposes, has been deleted, instead making this an example of proportionality in revised paragraph 2.3.c. • As noted above, former subparagraph 2.6.7. Using Prescribed Assumptions, has been deleted and a new sentence has been added to the end of paragraph 2.6. indicating the actuary should be guided by ISAP 1 paragraph 2.8. Assumptions and Methodology Prescribed, when using prescribed

	assumptions. • The text has been modified to clarify that listed factors or information are examples of the factors or information the actuary should consider – not exclusive, all-encompassing lists. • Text has been added to reinforce that the actuary should take materiality and proportionality into account when determining the method used to select assumptions and degree of refinement for specific assumptions.
Paragraph 2.7. Plan Assets	
Comment Response	2.7.2.: One commenter suggested adding guidance that excess policies may be a source of such "qualifying insurance policies" and adding some reference or mention of IAS 19, paragraph 115 guidance. We consider this is covered in the requirements in paragraph 2.1. Knowledge of Accounting Requirements.
Comment Response	2.7.2.: There will be cases where a scheme has purchased a qualifying insurance policy that match part of its liabilities, but the policy is in effect an investment decision and the liability remains a benefit obligation of the reporting entity. This matter was addressed by adding a sentence to 2.7.2.
Comment Response	One commenter raised a question as to why an explanation of how to value a particular form of benefit is included in a section that seems to apply to valuing plan assets. The issue in 2.7.3. is relevant to plans where benefits are defined by reference to any assets, whether held within a plan or not. The valuation of the benefits will depend on the assets and therefore should be consistent with them. We edited the wording to make the intent in 2.7.3. clear.
Comment Response	Several commenters thought that asset ceiling deserves its own paragraph rather than being included within the paragraph on plan assets. There were several suggestions to re-word this section with reference to IFRIC 14 guidance. We agree and created a separate paragraph (2.8.) on Asset Ceiling and have revised the wording considering the suggestions.
Paragraph 2.8. Asset Ceiling (new)	
	This paragraph was moved from part of 2.7. Plan Assets for clarity. See Comment/Response Immediately above.
Paragraph 2.9. Attribution of Benefits to Service Periods (formerly 2.8. in the published ED)	

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Comment Response	The example should be deleted as it may be confusing. We deleted the example.
Comment Response	How to attribute benefits to service periods is an accounting policy decision that should be for the principal not the actuary whilst the text acknowledges this ("when advising the principal") ISAP 1 covers situations where the methodology is prescribed.
Paragraph 3.1. Disclosures in the Report	
Comment Response	Following on from comments on section 2.3., this section goes beyond actuarial expertise. Paragraph 2.3. should be changed and that this section should be made consistent with the changed version. We deleted what was formerly paragraph 2.3. Material Errors, Omissions, or Non-conformance in the proposed final version of ISAP 3 and have deleted 3.1. b. accordingly. We added the requirement to disclose in the report if there is a conflict between IAS 19 and this ISAP and updated the references to the correct paragraph numbers within the ISAP.
Appendix	
Comment Response	Move Discount Rate Assumptions (2.6.3.a.- 2.6.3.c.) to the Appendix. Insert these paragraphs just above IFRS Report Disclosures in the appendix. We have made changes to paragraph 2.6.3. Discount Rate Assumptions, and reduced the level of detail on bond characteristics in particular. We have not put the deleted material in the appendix. The Pensions and Employee Benefits Committee will decide whether such material should be included in an educational note.

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Glossary	
Note: In addition to considering the comments received on the consultation, the ASC reviewed the glossary against the list of definitions used in IAA International Actuarial Notes (IANs) to ensure that the definitions used in the ISAPs and IANs are in sync. The amendments made to the Glossary are considering the outcome of this review as well as the comments received on the consultation. Several of the terms used in ISAP 3 are defined terms in the IASB Framework or standards. To avoid confusion to the users, the Glossary definitions of the following terms now cite and directly quote the source document; we have not considered commenters suggested changes to these IASB definitions: • Accounting policies • Constructive obligation • Employee benefits • International Financial Reporting Standards (IFRSs) • Reporting entity We agreed that the term IFRS report be removed from the Glossary. Within the revised ED, "IFRS report" is replaced with "IFRS financial statements".	
Defined Term (Suggested new)	
Comment	The following definition of "Deep and liquid market" should be inserted into the Glossary: **"Deep and liquid market (ISAP 3) -** participants can rapidly execute large-volume transactions with little impact on prices[1]"
Response	This term is no longer used in ISAP 3 so the definition was not added.
Defined Term - Measurement Date	
Comment	Delete the sentence "It is normally the last day of the reporting entity's financial reporting period or the date of a special event."
Response	We changed it to: **Measurement Date (ISAP 3)** The date as of which the value of an asset or liability is presented whether or not the actual calculations have been made as of a different date and rolled forward or back to the measurement date.