

**ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review**

Submission

The Actuarial Standards Committee (ASC) is pleased to submit this report. It 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.

This report documents the comments we received on the proposed final ISAP 3 in the final review process and how we addressed those comments.

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

Preamble

In accordance with the IAA’s due process for the development of ISAPs, the proposed final ISAP 3 along with the amendments to the Glossary for the proposed final ISAP 3 were published for final review on 30 September 2014 with a comment deadline of 30 November 2014. The proposed final ISAP 3 and the associated Glossary were provided to all member associations and commenters on the Exposure Draft to enable them (a) to draw attention to any unintended consequences in the final draft’s wording, and (b) to determine whether their comments have been appropriately considered in the preparation of the proposed final ISAP.

This report on the treatment of comments on the final review is organized into three sections:

- I. General overview of the responses to the consultation and the list of commenters
- II. Summary of the general comments received and our responses.
- III. Summary of the paragraph specific comments received and our responses.

**ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review**

I. General overview of the responses to the consultation and the list of commenters

We received 14 comment letters; 9 from Full Member Associations, 1 from a Standard Setter, 3 from consulting firms and 1 from an individual.

Six of the fourteen commenters were unconditionally happy with the proposed final ISAP 3 as published for consultation. The specific comments made by the other commenters were carefully considered by the IAS 19 Task Force of the ASC. These included principle, detail and technical matters. Summary responses are set out in part II and III of this document.

Comments received can be viewed in their entirety on the IAA website at

http://www.actuaries.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=STANDARDS_EXPOSURE-FINALISAPIAS19

List of commenters:

Comment Letter Number	Submitted By	Date Received
1	Het Koninklijk Actuarieel Genootschap	24-Nov-14
2	Svenska Aktuarieföreningen	26-Nov-14
3	Canadian Institute of Actuaries	27-Nov-14
4	Society of Actuaries in Ireland	27-Nov-14
5	Institute and Faculty of Actuaries	28-Nov-14
6	Towers Watson	28-Nov-14
7	The Japanese Society of Certified Pension Actuaries	28-Nov-14
8	Financial Reporting Council (UK)	28-Nov-14
9	Hungarian Actuarial Association	29-Nov-14
10	Stefan Engeländer	30-Nov-14
11	Aon Hewitt	30-Nov-14
12	Mercer	01-Dec-14
13	Italian Institute of Actuaries	01-Dec-14
14	Deutsche Aktuarvereinigung e.V.	09-Dec-14

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

II. Summary of general comments received and our responses

a. Comment	The proposed ISAP is too detailed.
Response	<p>Some commenters revisited comments made at the Exposure Draft stage that, in their opinion, the proposed ISAP should focus on higher level principles and, where details or examples are appropriate, that these are set out in IANs. It is clear from the Vision Statement and the Statement of Objectives for ISAPs that ISAPs are intended to be more than high level principles. The Statement of Intent for the proposed ISAP 3 also sets out the content of this ISAP and discussed what may be considered over time for inclusion in IANs.</p> <p>Based on the comments originally received on the Exposure Draft, we had eliminated some detail in the proposed final ISAP 3. We now consider the level of detail to be appropriate and have made no further changes along these lines.</p>

b. Comment	Although a number of commenters were grateful that much of the material they considered to be educational in nature had been deleted from the ISAP, particularly in paragraph 2.6, some felt more such material could be removed.
Response	We are satisfied with the content and balance of the proposed ISAP 3 and made no changes in response to these comments.

c. Comment	The standard paraphrases IAS 19 in certain places and it is unclear as to the purpose of the paraphrasing. This might have unintended consequences.
Response	<p>As previously observed in the Report on Treatment of Comments on Exposure Draft, IAS19 generally does not lend itself to direct quotations as the relevant material is set out in multiple places including in the basis for conclusions and by the IFRS Interpretation Committee. The limited paraphrasing in ISAP 3 provides needed context.</p> <p>We made no changes to the proposed ISAP 3 on account of this comment.</p>

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

d. Comment	Where ISAP 3 is not fully aligned with IAS 19, there is also scope for potential difficulties. Specifically, where the standard is more restrictive than IAS 19, it could cause difficulties for actuaries as reporting entities will not be bound by the ISAP. It may not be practical for an actuary to follow an ISAP where others within the process are not bound by the same requirements.
Response	<p>IAS19 applies to the reporting entity and the reporting entity determines the inputs to its financial statements, e.g. decides the assumptions to be used to determine pension cost. The actuary’s role is advisory and ISAP 3 provides guidance to the actuary when performing actuarial services in connection with IAS 19.</p> <p>We consider this ISAP supports the objectives set out in the Introduction.</p> <p>Note that 1.3.3. of ISAP 3 in conjunction with ISAP 1 paragraph 2.8. Assumptions and Methodology Prescribed allows the actuary to follow IAS 19 if ISAP 3 should be more restrictive than IAS 19.</p>

e. Comment	Inconsistent use of language in the ISAP; for example “seek advice” vs. “seek guidance” vs. “reliance on representations”. Is there a distinction?
Response	We have revised the language to reference “seek guidance” rather than “seek advice”. We do not agree however to changing references to "Reliance on representations".

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

III. Summary of the paragraph specific comments received and our responses.

Introduction	
Comment	One commenter queried whether it should be a purpose of an ISAP in the context of IFRS to facilitate convergence in actuarial practice in connection with IAS 19.
Response	We clarified the wording. This ISAP is intended to facilitate convergence in standards of actuarial practice in connection with IAS 19.
Paragraph 1.1. Purpose	
Comment	One commenter considered that the wording should be tightened to the effect that the actuary must always comply with the entity's accounting policy even if that leads to an outcome that is contrary to IAS19.
Response	ISAP 1 provides that the actuary should set out in the actuarial report, and comment on as appropriate, any prescribed assumptions and reliance on information provided. We made no change.
Paragraph 1.2. Scope	
Comment	The scope is too broad. Distinction could be drawn for instance between the role of actuaries ("in-house consultants") employed by the reporting entity and external advisers.
Response	We made a change to distinguish between actuarial and audit related roles.

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

Paragraph 1.2. Scope (continued)	
Comment	Some commenters noted a particular UK example of an actuary using assumptions prescribed by the principal or another actuary working for the principal. In the UK, an actuary who has a duty to the trustees of the pension scheme (the “Scheme Actuary”) may, because of their familiarity with the pension scheme, be asked by the reporting entity to carry out a calculating role for the purposes of that entity’s financial statements. The assignment would not include commenting on the appropriateness of the methodology or assumptions provided to the Scheme Actuary and, because the Scheme Actuary has a duty to the trustees of the pension scheme, for professional reasons the Scheme Actuary would not want to comment on the prescribed assumptions.
Response	<p>This is not an ISAP 3 specific issue. It concerns</p> <ul style="list-style-type: none"> • Paragraphs 1.2. Scope, 1.3. Compliance, and 2.6. Actuarial Assumptions of ISAP 3 as they interact with • Paragraphs 2.8. Assumptions and Methodology Prescribed, and 3.2. Report of ISAP 1. <p>An actuary who accepts such an assignment may be precluded by the applicable member association’s Code of Professional Conduct from opining on the assumptions. An actuary who complies with requirements of such actuarial code of professional conduct applicable to the work that conflict with ISAP 1 or ISAP 3 still complies with both ISAPs (sub-paragraphs 1.3.2. in both). According to sub-paragraph 3.2.2.a. of ISAP 1 the actuary should disclose any material deviation described in section 1.3. Compliance, and, accordingly, should disclose in the report that the actuarial code of professional conduct applicable to the work precludes the actuary from opining on the assumptions.</p>
Paragraph 1.6. Cross Reference	
Comment	Replace “applicable” with “relevant” in the last sentence.
Response	We made the change.
Paragraph 1.7. Effective Date	
Comment	It would be more practical to refer to the reporting period than the issue date.
Response	We agree and changed the wording accordingly.

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

Paragraph 2.1. Knowledge of Accounting Requirements	
Comment	The definition of accounting policies already includes reference to IFRS such that it may cause confusion to refer here to IFRS accounting policies.
Response	We agree and changed the wording accordingly.
Comment	The revised wording that the actuary should take advice from and place reliance on others (covered in paragraph 2.3. of ISAP 1, Reliance on Others), is helpful. However the wording at 2.1.b. continues to suggest that the onus is on the actuary in the first instance to identify / 'envisage' whether other relevant accounting policies apply.
Response	We edited 2.1.b. to clarify that the actuary does not have a duty to seek out alternative interpretations, but rather to deal with those that present themselves.
Paragraph 2.2. Materiality	
Comment	One commenter queried the statement in 2.2.1. that the reporting entity was (solely) responsible for setting the level of materiality on which the financial statements were prepared (as opposed to the materiality set by the auditor at the audit stage). The same commenter also queried the statement in 2.2.2. that “the actuary's threshold of materiality with respect to the actuarial services should be the same as or less than the reporting entity's threshold of materiality with respect to the preparation of IFRS financial statements”.
Response	We clarified 2.2.1. Regarding 2.2.2., we note that for some companies pension liabilities are the largest item on the balance sheet.
Comment	The second sentence in 2.2.2. should be elevated as a general principle, i.e. the principal or reporting entity (not the user of the IFRS financial statements) is always the intended user of the actuarial services and for all purposes.
Response	We do not agree that the "intended user" is limited to the principal or reporting entity for all purposes. Auditors, regulators, or others may also be intended users, depending on the particular circumstances. However, we believe it is appropriate to clarify that the intended user is the principal or reporting entity for materiality purposes. We changed paragraph 2.2.1 accordingly.

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

Paragraph 2.3. Proportionality	
Comment	One commenter sought clarification that references to ‘material’ and ‘materially’ in paragraph 2.3. should be with regard to materiality for the actuarial services (paragraph 2.2.3).
Response	We clarified the text by adding "materially" in paragraph 2.2.3.
Comment	The wording in examples (b) and (d) should be clarified to “when <u>the actuary considers that</u> doing so will not materially affect the results”.
Response	All the examples shown are subject to the actuary’s professional judgment. We made no change.
Paragraph 2.5. Categorization of Employee Benefit Plan	
Comment	If the actuary does not agree with the categorization of a plan by the reporting entity, this should not be a matter for comment in the actuary’s report. It is the job of the auditor to look critically at the reporting entity’s accounting policies.
Response	This is not an ISAP 3 issue. If, for example, the actuary disagrees with the categorization, that may need to be disclosed in the actuary's report as described in ISAP 1. We made no change.

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

Paragraph 2.6. and its Subparagraphs – Actuarial Assumptions	
A number of specific comments were made which are considered below.	
<ul style="list-style-type: none"> • Paragraph 2.6.1. General Approach for Selecting Assumptions 	
Comment	<p>The following were raised</p> <ol style="list-style-type: none"> 1. The list of example factors in sub-paragraph 2.6.1.b.i. includes factors that are broader than “market-implied expectations”. Further, the results of an appropriate asset model used to support the full set of financial assumptions should be added to the list. Similar changes should be made to paragraph 2.6.4. 2. The wording in sub-paragraph 2.6.1.b.ii. regarding the demographic factors that the reporting entity can influence, should be consistent with that on financial factors that the reporting entity can influence in sub-paragraph 2.6.1.b.i. 3. The wording at the end of sub-paragraph 2.6.1.b.i. could be interpreted to permit the actuary to ignore the experience of the covered population. 4. Paragraph 2.6.1.d. could be interpreted to say that the actuary must provide a single point recommendation and not, for example, a range.
Response	<p>In the same order</p> <ol style="list-style-type: none"> 1. We clarified the wording of sub-paragraph 2.6.1.b.i. and made similar changes to paragraph 2.6.4. The list of examples is not exclusive and “Analyses prepared by experts” may include output from models. 2. We made the change. 3. We changed the wording to avoid such interpretation. 4. We made no change. The terms of the assignment for the actuarial services will determine whether the actuary recommends single point assumptions, ranges or comments on the appropriateness of assumptions proposed by the reporting entity.

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

• Paragraph 2.6.3. Discount Rate Assumption	
Comment	<p>A number of specific points were raised</p> <ol style="list-style-type: none"> 1. Some of the additional detail, while useful for providing indications of alternative approaches to discount rate setting, would appear to constrain the actuary to a narrower set of approaches than permitted by IAS 19. 2. The wording in the stem of 2.6.3. can be read as saying that IAS19 provides a choice whether to select a high quality corporate bond or a government bond discount rate. 3. There is risk of confusion where ISAP 3 and IAS 19 cover similar matters in different ways and in different levels of detail. An example is the text on extrapolation of yield curves that is covered in paragraph 2.6.3.a.ii. and in paragraph 86 of IAS 19. 4. The last paragraph 2.6.3.a. seems to envisage the approach set out in paragraph 2.6.3.b. 5. The wording on the bond model approach (paragraph 2.6.3.c.) could helpfully be expanded to note the importance of the reinvestment yield assumption in such models. 6. The final paragraph of 2.6.3. raised a number of comments. Would auditors be comfortable with an entity proposing to use a different rate for determining service cost to defined benefit obligation? What discount rate would be used for determining net interest cost?
Response	<p>In the same order</p> <ol style="list-style-type: none"> 1. We made no change.. Paragraph 2.6.3.d. clearly provides for alternative approaches and the two example approaches listed in paragraph 2.6.3.d. are not exclusive. 2. We clarified the wording to prevent any possible misunderstanding. 3. We made no change. Extrapolation is an actuarial issue and is appropriately addressed in ISAP 3. 4. We made no change. The last paragraph of 2.6.3.a. differs from the approach described in 2.6.3. b. Under 2.6.3.a., the single weighted-average discount rate may be required for disclosure purposes, whereas 2.6.3.b. is about applying the single weighted-average discount rate in the valuation. 5. We made no change. We consider this to be educational and more appropriate for a later IAN. 6. This paragraph was added in response to comments made on the exposure draft regarding this emerging practice issue. It is clear from the comments on the proposed final ISAP that inclusion of this paragraph has raised more concerns

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

	than it has addressed. We also received useful informal comments along the same lines from an organization that wishes not to be identified. We deleted this paragraph and recommend that the Pension and Employee Benefits Committee consider creating an IAN on this topic.
• Paragraph 2.6.4. to 2.6.7. inclusive	
Comment	<ol style="list-style-type: none"> 1. Similar changes should be made to paragraph 2.6.4. as to paragraph 2.6.1.b. 2. One commenter considered that IAS19 provides for a broader list of factors to consider when setting medical cost assumptions than those set out in paragraph 2.6.5. This could cause confusion. 3. It is not clear what is envisaged by “future benefit levels” in paragraph 2.6.6. With regard to item b., another commenter considered that the actuary should seek guidance from the principal how to value asset related benefits.
Response	<ol style="list-style-type: none"> 1. We made the changes. 2. We made no changes. Paragraph 2.6.5. does not set out an exclusive list of the items the actuary should consider. 3. We clarified the wording: paragraph 2.6.6. considers factors that may change benefit amounts under the plan. In relation to item b, see our response to paragraph 2.7.3.
Paragraph 2.7. Plan Assets	
Comment	Paragraph 2.7.2. doesn't add anything over and above what is set out in IAS19 and can be deleted.
Response	We made no change. Paragraph 2.7.2. is included in response to comments received on the Exposure Draft that qualifying assets needed to be addressed for completeness.
Comment	The language used in paragraph 2.7.3. (“the actuary should ensure”) is directive but no operational guidance is given. Ultimately it's the reporting entity's decision what methodology and assumptions are used.
Response	We reworded paragraph 2.7.3. and now it clarifies that the guidance is with respect to the advice given by the actuary.
Paragraph 2.8. Asset Ceiling	
Comment	It is the reporting entity's decision whether and how to apply the asset ceiling. The actuary should be able to advise.

ISAP 3 - IAS 19 Employee Benefits
Report on Treatment of Comments on the Final Review

Response	We have reworded paragraph 2.8. to reference the advice of the actuary.
Paragraph 2.9. Attribution of Benefits to Service Periods	
Comment	It is the reporting entity's decision how to attribute benefits to service periods.
Response	We have reworded paragraph 2.9. It now clarifies that the guidance is with respect to the advice given by the actuary.
Paragraph 3.1. Disclosures in the Report	
Comment	Paragraph 3.1.c. should be generalized to cover any matters requested to be included in the actuary's report.
Response	We made no changes. The three matters listed in this paragraph are sufficient in addition to the requirements of ISAP 1.
Appendix	
Comment	What is the status of the appendix? Is it needed?
Response	The appendix is clear that it is provided for information only. We made two technical changes in the appendix to address wording used in relation to other long term benefits and to disability/injury benefits. We also clarified the last bullet of the appendix to refer specifically to the Basis of Conclusions to IAS 19.

Glossary	
Defined Term - Constructive Obligation	
Comment	The definition includes the IAS 37 wording ("valid expectations") and the IAS 19 wording ("no realistic alternative"). It may be misleading to include the IAS 37 definition without also referring to the definition of an "obligating event" under IAS 37 which includes the "no realistic alternative" wording referenced in IAS 19.
Response	We disagree and made no changes. The defined term in the glossary amalgamates the IAS 37 and IAS 19 guidance on constructive obligations.