

Memorandum

Date: 2 February 2015

To: Executive Committee (EC)

From: Alf Gohdes, Chair, Actuarial Standards Committee (ASC)

Re: ISAP 3 – Actuarial practice in relation to IAS 19 Employee Benefits

cc: David Martin, Chair, Professionalism Committee

Following my memo of 19 January and the changes to ISAP 3 recommended during the EC meeting held on 27 January, I broadly discussed the recommendations with the EC members kindly involved (Micheline, Peter and Francis), the IAS 19 TF, and the ASC.

With a unanimous vote (11 – 0) the ASC proposes to respond to the recommendations of the EC as follows:

1. Preface, page ii: The EC suggested that “is” is a bit strong and that “may be” would be better. The ASC does not want to go along with this suggestion for the reasons outlined below.
2. Page 11: The EC suggested that it should be clearly stated that the appendix is not authoritative. The ASC has accepted this suggestion and further clarified the text accordingly.
3. Page 5, paragraph 2.6.1.b.ii. last sentence: The EC considered the wording too weak in that it could possibly be used as an excuse by an actuary to simply accept prescribed demographic assumptions. The ASC has accepted this suggestion and has expressed the intentions of the standard more clearly by moving the offending sentence up to the stem of 2.6.1.b.ii. and inserting it there, appropriately reordered. Then the introduction to the bullet points needed to be tweaked too.

The ASC’s objection on the first point was made for the following reasons:

- We understand that the EC feels strongly regarding the change to 2.6.1.b.ii. to prevent a “cop-out” for an actuary, i.e. that he can interpret the standard as condoning unprofessional behaviour (by blindly accepting prescribed assumptions he would normally not accept). The ASC considers this sensitivity fundamentally inconsistent with the weakening of the Preface, all the more so, since the Preface is intended to apply to all ISAPs (new ones as drafted and existing ones when they are reopened for other reasons).
- The previous wording (with “is”) was intended simply to indicate what the term “substantially consistent” meant, as there has been some confusion about this.

Some find the modified paragraph:

A standard or set of standards that is promulgated by a standard-setting body **may be** considered to be substantially consistent with this ISAP if:

- There are no material gaps in the standard(s) in respect of the principles set out in this ISAP; and

- The standard or set of standards does not contradict this ISAP.

to be potentially misleading, since it can be read in two ways:

1. “may be... if” is declaring “only if” and is therefore permissive conditional on a state of affairs (in other words one may only describe a standard as substantially consistent if both bullets are true); or
2. if both bullets are true, one may (but not necessarily should) describe this as substantial consistency.

The difference is subtle, but concerns some ASC members.

The attached marked up and clean versions of ISAP 3 reflect this unanimous ASC decision.

In a second motion I put to the ASC, namely that of accepting all three points proposed by the EC, the votes were 9 votes for and 2 against; of the 9 votes for this motion two expressed a preference for it while the other 7 expressed a dislike for it, but “could live with it”. This means that a total of 9 out of 11 ASC members consider this motion inferior to the first.

Our objective is to obtain Council approval for this ISAP (in the version unanimously approved by the ASC) at the April Council meeting in Zurich. This memo has the following attachments:

1. Proposed Final ISAP 3 for approval
2. Revised Glossary for approval
3. ASC’s report on final review consultation on ISAP 3 and Glossary
4. Markup against the consultation version of the Proposed Final ISAP 3 for information
5. Markup against the consultation version of the Glossary for information
6. ASC’s report on treatment of comments on the Exposure Draft for information

In accordance with Due Process, we seek your approval for submission of our proposed final ISAP 3 and the updated Glossary to Council on the 60 day agenda.

I am at your disposal if you have any questions.