Financial Reporting Council

Dave Pelletier
Chairperson, Actuarial Standards Committee
International Actuarial Association
99 Metcalfe Street, Suite 1203
Ottawa
Ontario K1P 6L7
Canada

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Dear Dave

ISAP 3: proposed final draft

Thank you for providing the Financial Reporting Council (FRC) with the opportunity (a) to draw attention to any unintended consequences in the final draft's wording, and (b) to determine whether our comments have been appropriately considered in the preparation of the proposed final draft.

The FRC sets technical actuarial standards in the UK and oversees the setting of ethical and conduct standards (and other regulatory activities) by the UK Actuarial Profession.

We consider that the final draft is an improvement on the September 2013 exposure draft and we accept that many of our comments on that exposure draft have been appropriately considered. However we have the following concerns:

- there is a lack of clarity of the scope of ISAP 3 described in section 1.2
- the approach to materiality in section 2.2;
- it does not reflect certain IAS 19 requirements correctly; and
- our views expressed in answer to questions 2 and 4 have not been adequately taken into account – the draft still includes too much material that we consider is not appropriate for a standard but which would be better included in separate educational material.

Paragraph 1.2 Scope

The first sentence of paragraph 1.2 clearly states that ISAP 3 is intended to apply to all actuarial services provided in connection with IAS 19. This is a very broad scope. This broad scope is then qualified by the next sentence which says the focus is on actuarial services provided for a reporting entity in its preparation of IFRS financial statements. The final sentence requires actuaries providing actuarial services outside this focus to consider the guidance to the extent relevant.

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We consider this is likely to cause confusion for both practitioners trying to follow the standard and users of those services.

If the intention is to provide a standard for actuarial services provided to a reporting entity in its preparation of its IFRS financial statements then this is what the scope should be limited to.

Paragraph 2.2 Materiality

We consider that paragraph 2.2 is not consistent with materiality as described in the IASB's Conceptual Framework and IAS 1 in particular concerning the concept of materiality with respect to the preparation of financial statements. We accept that materiality is relevant to the work of the auditor of those financial statements and the work of the actuary providing services in connection to IAS 19 to the preparer.

We suggest that the whole paragraph is reconsidered.

For example, we consider that the first sentence of paragraph 2.2.1 is unnecessary but if it were retained it should either include text similar to that in the Conceptual Framework or IAS 1 or be amended to "The reporting entity may decide to determine materiality levels for the preparation of IFRS financial statements".

We are also concerned that paragraph 2.2.2 states that the actuary's threshold of materiality could be the same as the reporting entity's threshold. In practice we consider this is very unlikely as pensions will be just one of many items where materiality may be considered.

Paragraph 2.6.3 Discount Rate Assumption

We consider that the IAS 19's discounting requirements are misleadingly described. Paragraph 2.6.3 refers to "IAS 19's requirement that the discount rate reflect market yields at the measurement date on high quality corporate bonds (if the market for such bonds is deep) or government bonds, where such bonds are consistent with the currency and estimated term of the employee benefit obligation". This wording suggests that IAS 19 allows a choice, but IAS 19 does not give a choice between high quality corporate bonds and government bonds. It says that high quality corporate bonds have to be used unless the market for them is not deep, and only then are government bonds to be used. We suggest that the wording in paragraph 2.6.3 is aligned with paragraph 83 of IAS 19.

Medical cost assumptions

Paragraph 2.6.5 alerts the actuary to three considerations - (a) medical v general price inflation, (b) cost components of medical price inflation, and (c) the need to consider different time periods. IAS 19 covers medical cost matters in some detail including making allowance for (a) and being more specific about (c); it also includes matters that paragraph 2.6.5 does not mention - data sources, differing demographic mixes, and claims handling costs. We consider the differences are confusing. To avoid duplication with IAS 19, paragraph 2.6.5 might be limited to guidance on cost components of medical price inflation.

Educational material

In our initial response we suggested that there was too much educational material in the standard. We note that this has been reduced but we still consider that having almost one quarter of the standard devoted to describing four possible methods for determining the discount rate assumption is disproportionate. Furthermore, we consider there is a risk of

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confusion for both users and practitioners as 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.

Yours sincerely

Robert Inglis
Project Director
Actuarial Policy Team
Tel: +44 20 749 2356
Email: r.inglis@frc.org.uk

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