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Subject: Exposure draft of proposed ISAP 3, Actuarial practice under IAS 19 Employee Benefits

Dear Sir or Madam

We welcome the opportunity to comment on the proposed International Standard of Actuarial Practice 3 (ISAP 3). The current version is an improvement on the exposure draft published for consultation in October 2013, but we would prefer a different approach to have been taken. We understand the IAA's aim in publishing ISAPs is to set minimum standards of behaviour for actuaries operating in the relevant area as well as standards relating to the methodology used and approach to setting assumptions. Our view is that this could be achieved more simply, if a more principles based approach had been adopted.

In particular, ISAP 3 still contains more detail than is necessary, and to that extent it could be unhelpful. The IAA's member organisations are required to have codes of conduct in place that require their individual members (for example) to 'perform professional services with integrity, skill and care' and 'only if the actuary is competent and appropriately experienced to do so'. The ISAPs should build on this, rather than providing educational material that in some cases appears to be directed at individuals who do not have the necessary experience or competence to carry out the relevant activity.

We also have a concern in relation to actuaries who might be asked to carry out accounting calculations, when the advice in relation to the assumptions and methodology has been provided by another actuary. This is often the case in the UK. In these circumstances, it seems superfluous for the 'calculating' actuary to be required to comment on the assumptions, which seems might be necessary due to the relationship between ISAP 3 and ISAP 1 and the definition of 'actuarial services' ("Services based upon actuarial considerations provided to intended users that may include the rendering of advice, recommendations, findings, or opinions."). It might be helpful if the IAA clarified whether carrying out a calculation following the assumptions and methodology instructed by the client involves any actuarial considerations: in our view it does not, since just calculating the numbers is a routine task often carried out by an outsourced function that need not be staffed by actuaries, but we are aware that other actuaries would suggest that it does.

The specific areas where we still have concerns are described here in the order they occur:

Paragraph 2.1 uses the words 'the actuary should…obtain sufficient knowledge of…the reporting entities relevant IFRS accounting policies." Whilst we agree this is desirable, it is not always possible so we suggest the language is modified to 'the actuary should try to obtain' and that, where he or she has not been successful, this should be disclosed.

We think that the descriptions of different ways to derive a discount rate in paragraph 2.6 are too detailed for a practice standard. The methods are presented without any attempt to differentiate between them, so the ISAP misses the fundamental principle that, in selecting an approach, the actuary should have regard to the available data and models available. More specifically:

- The last paragraph of 2.6.3.(a.) seems to encompass 2.6.3.(b.).
- The extra information means the ISAP gives disproportionate emphasis to the choice of discount rate. Our view is that most of the information provided in paragraphs 2.6.3(a.), (b.), (c.) and (d.) should be in educational material, rather than in a practice standard intended to influence behaviour.
- The last paragraph of 2.6.3 gives disproportionate emphasis to recommending different discount rates for the service cost and the DBO, which might be misinterpreted as saying this is the only circumstance in which a different discount rate can be recommended under approaches (b.), (c.) and (d.) and not, say, for pensioners backed by a qualifying insurance policy.

The last paragraph of 2.6.3 suggests that an actuary following approaches (b.), (c.) and (d.) 'may' recommend different discount rates for the service cost and the DBO. However, from an actuarial perspective, this approach falls naturally under 2.6.3.(a.). For information, in the UK it is not clear to us that all the auditing firms would accept the use of a different discount rate for service cost. It might be helpful if ISAP 3 included a section on the relationship between actuarial and audit roles, to clarify the differences in the responsibilities of the two sets of professionals.

In paragraph 2.6.4, we do not agree that 'forecasts of inflation', 'relevant regional factors' and 'central bank monetary policy' should be described as market implied expectations. We suggest that the phrase 'information on' is changed to 'information related to'. Similar issues apply to 2.6.1.(b.)i.

In paragraph 2.6.6, it is not necessarily clear whether the reference to 'future benefit levels' is for benefits attributed to future accounting periods, all unpaid benefits, or something else. We suggest that 'future benefit levels' is defined, or the paragraph wording is adjusted to clarify this.

We are not sure that 2.7.2 adds anything over and above what IAS 19 would require in any case.

The effect of paragraph 2.7.3 is unclear and might not be desirable for several reasons: first, it is the reporting entity's decision how to value benefits, although the actuary can advise possible appropriate approaches; secondly, if the paragraph intends an 'expected return on assets' to be used to determine the value of future benefits, and this is different from the discount rate, this can give rise to perverse outcomes. Our preference would be for the actuary to be expected to advise on different approaches, disclosing where accumulation rate is inconsistent with the underlying assets, rather than for a particular approach to be (effectively) mandated.

In paragraph 2.8 also, the actuary cannot him or herself decide with any certainty how the asset ceiling should apply: it is the reporting entity's responsibility, although the actuary should be able to advise.

Similarly in paragraph 2.9, in determining how to attribute benefits to service periods, the actuary should take instruction from the employer, although he or she can advise on possible approaches.

If you have any questions about our response, we would be happy to answer them.

Yours sincerely,

[By email]

Deborah Cooper

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