please find below my personal comment on the proposed final ISAP 3.

Regards

Stefan Engeländer

General comments

The draft appears to include to a significant extent educational material, so about 2 pages of 8 of its actual technical body. I understood that an ISAP should emphasize the binding guidance by focusing on it but might include educational material if it is needed to lead to the guidance or examples to explain the meaning of binding guidance. But e.g. in 2.6.1 the last sentence is a pure educational addition, without any consequence to a subsequent binding guidance. As well the lists in 2.6.1, 2.6.3, 2.6.4 and 2.6.6, which make up about 20 % of the text of the technical guidance of the ISAP, do not have the purpose to explain the meaning of the binding guidance but attempt to provide complete educational information. 2.6.1 b.i. last bullet point is so vague, that it is typical for an IAN rather than for an ISAP. The volume of educational material deducts attention from those parts which are essential and makes the ISAP less transparent. It might have been preferable to write first an IAN and then to extract those parts which require professional enforcement in an ISAP, referring to the IAN regarding any educational material.

I expected the appendix to include background why the ASC provided particular binding guidance, i.e. reasoning about the relevance of some guidance, similar to the basis of conclusion as the IASB adds to any of its IFRS. The appendix is a opportunity of the ASC to advertise its ISAP for acceptance by the FMAs by explaining why the provided binding guidance actually is needed and contributes to its targets. However, the appendix presented is pure educational about IAS 19 without any reference to the guidance in the ISAP. Again a point which indicates that it might have been better to issue first an IAN. In addition to missing the chance to advertise the need of the ISAP it causes the issue that there is IAA guidance how to issue educational material, as public statement or in form of an IAN while the ASC is fully free in wording the Appendices of an ISAP. The Appendix included could be seen as sidestepping the due process of Public Statements or IANs.

The Draft ISAP provides at many places guidance which is directly derived from IAS 19 and some guidance which is home-made. E.g., page iii Sentence 4 is a literal citation of IAS 19.59. Any guidance directly resulting from IAS 19 and of course any citation should be noted as such, providing the underlying paragraph of IAS 19. There should be never doubt whether a requirement is an original IAS 19 requirement or a requirement by the IAA. Consequently, 2.6 should make references to IAS 19.75, particularly 2.6.3, as well 2.7 and 2.8.

Some comments in detail

Page iii First bullet point: I am not sure whether it should be purpose of an ISAP in the context of IFRS to facilitate convergence. A diversity of practices does not object the objectives of IFRS. In opposite, a diversity of practices may help over the time to identify that one which is best accepted by the users of the financial statement and to develop new, even better approaches. Important is that the outcome is in line with the requirements of IFRS. Hence, an ISAP should facilitate the quality of actuarial practice and their compliance with IFRS and its objectives. It should explain the requirements of IFRS and what to do to comply with it and to avoid deviation. Particularly, the practices applied are merely at the decision of the preparer of the financial statement as expressed in the accounting policies. Did IASB or any organization of preparers, auditors, accounting standard setters or accountants in general ask the IAA to facilitate convergence of actuarial practices in providing services for IFRS reports? Or is this a self-chosen target? Particularly, the intention of convergence is not included in 1.1, which provides clear guidance about the purpose of the ISAP in an IFRS context. I know that in general it is one of the purposes of the ISAPs of the IAA to enhance convergence. But I fear here is a misunderstanding. The Vision Statement refers in no. 1 to convergence of national actuarial standards, not to convergence of actuarial practices. The Statement of Objectives notes that the target is to provide “users of the actuarial work product with confidence that practice is consistent across clients subject to similar requirements.” That is more special than the broad statement here in page iii first bullet point.

1.1 first bullet point: The actuary should not only take into account the reporting entity’s accounting policy, compliance with the accounting policy is the first and undisputable duty. Compliance with IAS 19 (whether objectively or in the opinion of the actuary) does not justify a deviation from the accounting policy. Rephrase: Actuarial services are carried out professionally and with due care, in compliance with the reporting entity’s accounting policy, considering beyond that IAS 19.

1.2 The use of the undefined phrase “IFRS financial statement” is unclear. It is recommendable to have financial statement as defined term (reference to IAS 1.9-11) and to clarify that the ISAP refers only to financial statements which are provided stating compliance with IFRS according to IAS 1.16.

1.3 should include as well a reference to the accounting policy, i.e. if the accounting policy conflicts with this ISAP, following the accounting policy should not be seen as a conflict with this ISAP.

1.7 The actuary might not know at which date an IFRS report is issued to which he contributes. Wouldn’t it be better to refer to the begin of the relevant accounting period (as IFRSs do) or to the reporting date (i.e. for which the measurements are made)? The actuary need to know the reporting date since he chooses the assumptions for that date and particularly discounts on the basis of that date.

2.1 The phrase “IFRS accounting policies” is misleading. The defined phrase “accounting policy” clarifies, in combination with the reference to the financial statement in compliance with IFRS, already what it is. If a further clarification is assumed to be needed, refer to “accounting policies applied by the reporting entity to the financial statement as referred to in 1.2”. The phrase “IFRS accounting policies” does not exclude irrelevant accounting policies (as assumingly was intended) since some entities might have several “IFRS accounting policies” in place, e.g. for the consolidated. group IFRS report and for the IFRS report of the legal entity.

Again, the basis for the actuary is the accounting policy. As long as an IFRS is not needed to interpret the accounting policy or to solve issues not solved in the accounting policy, the actuary has nothing directly to do with the IFRS, except as background information. The first step would be to note that “If the actuary is uncertain whether a provision of the accounting policy is relevant for the actuarial service … the actuary should seek advise …”

While the advice of the principal, if the principal is not the preparer, might be seen as reliance on others, an advice of the preparer, which should be asked for by the actuary in any case of doubt, is binding guidance which is beyond any guidance in the ISAP and has the same role as the accounting policy (the preparer formulates the accounting policy). That differentiation should be made as well later, e.g. in 2.2.1.

2.2.2 causes doubts whether the intended user of the actuary is generally the principal or the reporting entity. It should be somewhere clarified that this is true. The actuary provides information to the preparer of the report to help the preparer to comply with his duties, but there is no direct link from the actuary to the user of the financial statement.

2.3 a., b. and d. are misleading in comparison with 2.2.3. The latter refers to “material” with respect to the actuarial service (which means ultimately material with respect to the financial statement) while here reference is made to “materially affect the results”. It should be made clear, that the word “material” is always to be considered in the sense of 2.2.2. It does not matter, whether something has little impact on the liabilities, relevant is whether it has immaterial impact to the financial statement. E.g., it may be that something which has little impact to the liability is to be presented separately in the notes of the financial statement and consequently it is material by its own.

2.5.3 The guidance provided by the accounting policy or the preparer (i.e. by the reporting entity) is to be seen by the actuary as not being subject to any criticism. If the actuary does not agree with it, the actuary might indicate that to the principal but the actuary is not in the position to have an own opinion in that regard. Therefore I do not think that a reference to ISAP 1 2.8.2 is suitable. The actuary should note in his own documentation if he disagrees and note that he informed the principal but do not anything else. That needs to be differentiated from cases, where the actuary is advised to provide actuarial services in an unsound manner, i.e. deviating from the written accounting policy, the written guidance by the preparer or below that level. The actuary should be aware what “accounting policy” means (see IAN 8) and be able to judge when something is below that level. For example, that 2+2 equals 4 is not an accounting policy. And a requirement that the actuary should assume that it equals 5 is clearly unsound and should be noted in actuary’s report. But if the actuary does not agree with the categorization of a plan by the reporting entity, that is nothing to be reported in the actuary’s report. It is the job of the auditor to look critically to the accounting policies and such accounting decisions of the entity. Of course, the actuary need to clarify in line with ISAP 1 2.8.1 that the accounting decision was made by the reporting entity to enable the auditor to identify the source of the decision.

The same applies to 2.6. The actuary should refrain from stating that assumptions chosen by the reporting entity are wrong but he might describe own calculations if they have a different result without formulating an opinion that his own calculations are superior. The IAA should not force an actuary to criticize the preparer of a financial statement in doing his job.

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