ACTUARIAL STANDARDS BOARD

February 12, 2014

The Actuarial Standards Board (ASB), the standard-setting body for actuaries in the United States, is pleased to provide these comments on the Exposure Draft of the ISAP on Actuarial Practice under IAS 19 Employee Benefits ***(ISAP 3) for the ASC as they seek to develop a final version.***

General Comment on ISAP 3:

This ISAP deals only with application of actuarial practice to compliance with IAS 19 requirements. As a result, some of its requirements are quite detailed. Other requirements are broader, and would seem to be applicable to many aspects of pension actuarial practice. Many years ago, the ASB issued "actuarial compliance guidelines" that were conceptually somewhat similar to ISAP 3 as drafted. However, the ASB subsequently concluded that issuing more general guidance was more appropriate. The ASB has thus rescinded most of these compliance guidelines and ceased writing new ones. The very detailed instructions in those guidelines have thus been omitted, while the more general guidance has been incorporated in standards that broadly cover pension actuarial practice. We encourage the ASC to consider whether such an approach, along with a practice note describing more detailed considerations related to IAS 19, would better serve the profession. We think it would.

Questions from the Transmittal Memorandum:

The ASC posed several specific questions in its transmittal Memorandum. Those questions along with our responses to each are listed below.

1. Is the guidance clear and unambiguous? If not, how should it be changed?

   For the most part the guidance is clear and unambiguous. However, in places the guidance could be clearer. Our suggestions for improvement are noted below.

2. Is the guidance sufficient and appropriate? If not, how should it be changed?

   We believe there are sections where the guidance is not appropriate. We have noted those instances and our suggestions below.

3. Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1? If not, how should it be changed?

   For the most part, yes. However, we note below that the section on proportionality could be more closely tied to ISAP 1.

4. Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?

   As noted above, we believe that some of the guidance is too detailed. Section 2.6.3, which is given more attention below, is an example of where this is the case.

5. The proposed ISAP does not currently provide specific guidance to actuaries advising the reporting entity on the information that should be included in the IFRS report to meet IAS 19's disclosure objectives (the appendix contains educational material on these disclosures). Should the ISAP be expanded to provide guidance in this area? If so, what should the guidance be?

   We do not believe the guidance should be expanded. We do not feel that actuarial standards should attempt to interpret accounting guidance.

6. Are there other matters that should be included in this standard on actuarial work in connection with IAS 19 Employee Benefits? Are there some included here that should not be?

   We have no additional comments.

Comments by sections of the proposed ISAP on IAS 19:

<u>Section 1. General</u>

1.2 Scope: We are unclear as to the distinction between "services" in the second sentence and "actuarial services" in the first and third sentences. If no distinction is intended, we suggest identical terms be used in each circumstance.

<u>Section 2. Appropriate Practices</u>

2.2. The distinction between sponsor materiality and actuarial services materiality appears to be a useful concept, and we hope it will be part of any final document.

2.2.2 This section seems to extend the actuary's responsibility beyond the minimum information that an actuary needs to furnish – the service cost and Defined Benefit Obligation (DBO).

2.3 This section seems to require the actuary to assess the reporting entity's accounting policies for compliance with IAS 19. This is not the province of the actuary, nor should actuaries be presumed to have the expertise to do so. We realize the section does not require searching for noncompliance, but this does not obviate the following concerns:

- Application of accounting rules depends on facts and circumstances, and what may appear to the actuary to be noncompliance may be reasonable in the eyes of the client and its audit professionals.
- Some actuaries by training do have substantial knowledge of accounting rules; this section might place a higher burden, and potential competitive disadvantage, on those actuaries.
- The section requires that the matter be resolved in a satisfactory manner, but does not indicate who must be satisfied or what is necessary to gain satisfaction.
- The actuary's assignment could be limited to furnishing a service cost and DBO; this section appears to anticipate a significantly broader role.

We suggest a more useful requirement may be for the actuary to consult with the client regarding any interpretation concerns (as opposed to requiring a resolution) and that the interpretation in question be clearly disclosed in the report.

2.6.1(c) We found this section very confusing. We believe that the point is that the actuary, in setting the assumption, should determine those parameters which should affect the construction of the assumptions. So for example, the actuary might have a salary increase assumption that was the same for all individuals, or one that varies depending on the individual's age, gender, years of service, etc. We agree that it may be appropriate for the assumption format to include assumptions for different segments of the covered population, but believe the wording should be clarified.

2.6.1(d) In effect, this section requires that an actuary determine what is appropriate to represent another entity's best estimate. How one would come to that conclusion is not clear. We believe a better standard is for the actuary to believe the assumptions are reasonable for the purpose of the measurement. We acknowledge that IAS 19 uses the phrase "best estimate." However, we believe this use is unfortunate, and is an example of why writing specific guidance to comply with an accounting standard creates the difficulties described in our general comment.

2.6.3. As written, the standard requires that the actuary use either a yield curve or a "simplified approach." This language seems to preclude the use of bond models that are neither yield curves nor, in our opinion, simplified approaches. The use of bond models is part of current practice; we see no reason to ban them as inappropriate actuarial practice. The language also seems to preclude development of any other approach for determining yield rates, thus potentially stifling professional advancement into new areas. We believe the standard should specifically recognize bond models as an appropriate method, and mention that other methods may be reasonable even if not simplified.

2.6.5 The second sentence lists factors for the actuary to consider, but in many cases some of those factors will not be applicable. We suggest modifying the language by replacing "such as" with "which might include."

2.9 Section 1.5.2 of ISAP 1 introduces the concept of proportionality. To the extent that guidance in ISAP 1 is repeated here, we suggest it should either be removed or be identical to the ISAP 1 language. To the extent that it is an example or expansion of the language in ISAP 1, we suggest that should be clearly indicated here.

<u>Section 3. Communication</u>

3.1b For the reasons noted in our comment on section 2.3, we believe this section goes beyond actuarial expertise. We believe section 2.3 should be changed and that this section should be made consistent with the changed version.

We hope the ASC finds these comments helpful. We would be happy to discuss these comments or any other questions the ASC may have regarding the ASB's thoughts on this ISAP.