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Please use this template to comment on the [Exposure Draft of ISAP 3 Actuarial Practice under IAS 19 Employee Benefits](#), and the [ISAP 3 Glossary \(ED\) markedup](#).

	Identification and instructions	
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	Ralph Blanchard (personal comments)
Name of organization		
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Public comments
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as "Introduction 3rd paragraph 2nd bullet" or "2.6.1.b.ii" ○ Please insert/append extra rows as needed. <p>Please send the completed template, renamed with the organization's or individual's name, attached in <u>Word Format</u>, to</p> <p>ISAP3.ISAP.comments@actuaries.org.</p>	



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	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	Not always. For example, it is not clear why the actuary needs to differentiate between the actuarial services and the IFRS report with regard to materiality.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	No, for certain practice areas. There is much discussion about discount rates but nothing about medical inflation assumptions. There is also little to no discussion about reliance on others for items outside the actuary's expertise (and disclosure of same). There is no real guidance about the treatment of indemnification policies that cover the risk of high benefit levels, nor of the treatment of subrogation recoveries. Hence it appears that this was written with a focus on some practice areas but not all practice areas. Either include such guidance or note the possible need for additional guidance for certain practice areas.
Q3.	Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1? If not, how should it be changed?	Somewhat, but there was no mention of the paragraph number for materiality in ISAP 1, and there should be hyperlinks in the final draft if this guidance remains.
Q4.	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?	It may be too detailed for some practice areas and somewhat lacking in at least one other. See specific comments below.
Q5.	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?	No comment.
Q6.	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?	I still get the sense that scoping in self-insured workers compensation into this standard is like ramming a square peg into a round hole. I don't think this approach results in effective guidance for the



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		<p>profession. It lacks useful guidance for self-insured workers compensation, such as the treatment of subrogation (that may exist for large claims and is covered by IAS 19.116), excess WC policies, reliance on others for discount rates or yield curves, possible approaches to dealing with mortality tables for those with significant disabilities, medical inflation, and probably a few other items.</p>
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	General Comments on the Exposure Draft	
	<p>Given the potential for this standard to be needed in all jurisdictions, including those that have established actuarial standard structures, it would probably be more useful to the worldwide profession if it inserted the wording from ISAP 1 (with appropriate reference), rather than referencing ISAP 1. The current approach makes it difficult to be used by an actuary (or a standard setter) in a jurisdiction with established actuarial standards.</p> <p>The ISAP is deficient in discussion of reliance on others for certain inputs/assumptions, and on testing for estimate uncertainty (and the risk that actual results will differ from estimates).</p> <p>I also reviewed this ISAP with respect to the purpose (i.e., the four bullet points) listed in the introduction, and don't believe that it contributes to the purpose for employee benefit obligation estimates for self-insured Workers Compensation. This is based on a review of the guidance within the ISAP that applies to that practice area – my conclusion was that it doesn't really provide any material guidance in that area. Hence I can't see any reason to apply this ISAP to such work.</p> <p>I wonder whether this ISAP would have been more useful to the profession if it was split into at least three pieces – pension work, retiree health work, and "other".</p>	



Comments on specific paragraphs of the Exposure Draft		
Full paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
Title	Include a footnote reference after IAS 19 in the title that reads “as amended by the IASB in June 2011”.	This ISAP applies only to the version of IAS 19 as amended by the IASB in June 2011, but this currently isn’t disclosed until paragraph 1.6. This should be more evident up front.
1.3	<p>Make the reference to other ISAPs within an ISAP in the form of a hyper-link. This paragraph refers to paragraphs 2.6, 2.8 and 2.9 of ISAP 1.</p> <p>Alternative (which I prefer) is to copy in that other language, so that each ISAP stands alone. A stand alone version is more apt to be adopted by standard setters that already have established standards. This is probably more of an issue for an ISAP covering IFRS reporting than with some other ISAPs.</p>	The current format requires the actuary to access multiple documents and (potentially) websites in order to read and understand the guidance. This detracts from the usefulness of the ISAP and increases the risk that something will be missed in applying it.
1.4	Recommend that this be deleted	<p>Work may be done under IAS 19 in many jurisdictions, even those that have established standards. Such jurisdictions are unlikely to adopt ISAP 1 in place of their own long-existing standards. Instead they are more likely to make the combination of all their existing standards consistent with ISAP 1 for the scope covered by ISAP 1. By adding paragraph 1.4, the IAA would make it very difficult for an actuary subject to other general practice standards to apply this model standard, except via arguing that their local standards (when taken as a whole) are substantially equivalent to ISAP 1, hence they would argue that they are effectively following ISAP 1. This is a hard argument to make on a</p>



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		witness stand. Hence if the IAA wants this ISAP 3 to be available as a model within a jurisdiction with established standards, paragraph 1.4 should be deleted.
2.1	<p>Modify this paragraph as follows (with the suggested added wording being underlined):</p> <p>“the actuary should have or obtain sufficient knowledge and understanding of <u>the relevant paragraphs of</u> IAS 19 , relevant paragraphs of other IFRSs to which IAS 19 refers, and ...”</p>	<p>The current wording may imply a required understanding of all of IAS 19. For US self-insured workers compensation, the only relevant paragraphs are 2, 5, 8, 155, 75-88, 95-98, 113-119, 156 and 158. Much of the discussion in IAS 19 is totally irrelevant to such practice (e.g. discussion of period service cost, unit credit method, defined contribution).</p> <p>The drafters may have intended for the word “sufficient” to address this concern, but if so, I don’t believe that the guidance is clear enough.</p>
2.2.1	<p>At a minimum, recommend including a hyperlink in the reference to the materiality discussion in ISAP 1 (which I believe is meant to be paragraph 2.4 in ISAP 1). If this remains, then the ISAP 1 paragraph reference should be given. My preference would be to delete this paragraph.</p>	<p>As to a hyper-link, the reader should not have to hunt for the suggested guidance.</p> <p>It wasn’t clear what the issue was that was covered by this separation of actuarial services materiality to IFRS report materiality. I couldn’t see how two different materiality standards would be applied to the work product.</p> <p>I also found the “guidance” in ISAP 1, paragraph 24 to be deficient, as that guidance only referenced “omissions, understatements and overstatements”. Many times an actuary has to decide if additional work would materially impact the result, where the issue is sensitivity to assumptions or uncertainty. This uncertainty issue doesn’t seem to fit into the category of</p>



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		“omissions, understatements, [or] overstaments”. If materiality guidance is to be provided, it has to address uncertainty issues in addition to the ISAP 1, paragraph 24 scope.
2.3	Suggest adding “where relevant” after “including”	Not all the items listed are relevant to all IAS 19 work.
2.4	Suggest deleting the reference to paragraph 2.3, and replace it by copying the words from that paragraph that say “If such a matter is discovered and not resolved in a satisfactory way before the actuary issues the report, the actuary should disclose the matter in the report.”	The reference to paragraph 2.3 is not helpful here to the extent the uncertainty is not caused by “errors, omissions or non-conformance”. In addition, it appears that only a portion of paragraph 2.3 was meant to be referenced. In that case, I suggest using those same words in both 2.3 and 2.4.
2.6	Possibly include the reference to paragraphs 2.6-2.9 as a hyperlink. Personal preference would be to copy those paragraphs into this section, so that this ISAP can stand alone.	It will be a much easier to adopt model for jurisdictions with established standards if the words from ISAP 1 were copied here. (See discussion on paragraph 1.4).
2.6.1	Mention that the actuary should consider evaluating the sensitivity of results to various assumptions, or in some fashion evaluate the uncertainty in the estimate.	There is already a standard in the US that would cover estimates of unpaid claim liabilities for self-insured workers compensation, although the scope of that standard is broader than potential IAS 19 work. That standard (ASOP 43) requires (in its paragraph 3.6.8) the actuary to consider the uncertainty associated with their estimate, and requires disclosure (in its paragraph 4.1.e) of “specific significant risks and uncertainties, if any, with respect to whether actual results may vary from the unpaid claim estimate”. This draft ISAP is deficient with regard to estimate uncertainty and the risk that results will differ from estimates. This deficiency should be addressed, as it impacts the



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		profession's reputation.
2.6.1.c	Delete the "s" in "parameters".	Typo. The phrase "[c]onsider which parameters assumptions ..." seems to be grammatically incorrect.
2.6.2	Add "where appropriate to the workproduct" to the suggestion of considering a generational mortality table.	This suggestion is largely irrelevant to determining the mortality assumption for spinal cord injury claims or other substandard mortality situations.
2.6.3.b.ii	Allow an option to just state reliance on a third-party's yield curve, rather than always understand how it was constructed.	Current proposed wording says "Similarly, when the actuary is using a third party's yield curve, the actuary should understand how that third party has constructed its yield curve." This wording exists despite IAS 19 saying that the present value obligation "is unlikely to be particularly sensitive to the discount rate applied to the portion of the benefits that is payable beyond the final maturity of the available ... bonds." For self-insured workers compensation in particular, the assumptions regarding the nominal medical payout for lifetime cases is likely to be far more material than the discount assumption. The construction of the yield curve also requires different expertise than that required to forecast the future workers compensation benefits. Hence this requirement in ISAP 3 is not always appropriate. As such, the actuary should have the option of merely stating reliance on the third-party's yield curve.
2.6.3.c	Consider simplifying the "simplified" approach where this is not as material an assumption to the estimate	For self-insured workers compensation the focus is generally the estimate of the nominal payout,



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		not the discount rate.
2.6.5	Add the word “potentially” so it reads “, the actuary should consider potentially relevant factors such as ...”	Nearly all the items listed are irrelevant to self-insured workers compensation. The suggested edit does not eliminate or weaken the list for other applications, while making it more valid for the application to self-insured WC.
2.6	Add some guidance about medical benefit inflation	The guidance on medical benefit inflation assumptions in this standard is very weak (almost non-existent), yet such assumptions may be extremely material for multiple applications, such as self-insured WC and for retiree medical benefits.
2.6.8	Add the title of IAS 8 after the reference to IAS 8.	Some actuaries may have to apply IAS 19 without normally practicing in an IFRS environment. In addition, adding the title of IAS 8 will protect this ISAP in case IAS 8 is renumbered or the content moved to an IFRS #.
2.7	Change “often” to “may”	The kind of IAS 19 work done by some actuaries may only rarely include “plan assets”. For example, for self-insured workers compensation the only plan assets may be excess WC policies.
2.7.2	Suggest adding guidance that excess policies may be a source of such “qualifying insurance policies”. Suggest also adding some reference or mention of IAS 19, paragraph 115 guidance.	It may not be obvious to some practitioners that these policies may also be covered under IAS 19, as it may be rare for some.
2.7.2	Clarify the last sentence of this paragraph where it mentions obligations “that an insurer has assumed”.	In some cases the employer is still legally liable for the benefit, such that the insurance policy is legally an indemnification of the employer. This legal situation can occur even if the insurer takes



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		<p>over the administration of the benefit – i.e., the insurer has not “assumed” the obligation legally. It is unclear whether the wording in 2.7.2 includes such a situation. (It might also be helpful to include a reminder in the guidance that such the present value of such indemnification policy recoveries are to be netted against the benefit liability.)</p>
2.7.4	Change “the asset ceiling” to “an asset ceiling”	Editorial. An asset ceiling may not always exist.
2.9	Move this paragraph to right after 2.2	This paragraph materially affects most of section 2, hence it should be before most of section 2.
3.1	<p>Add a hyper link to ISAP 1, section 3, if this ISAP wants to rely on that guidance.</p> <p>Suggest adding additional material with regard to required disclosure where the actuary relies on others for items outside their expertise</p>	<p>ISAP 1, section 3, is weak with regard to reliance on others for assumptions/models (such as when relying on an investment department or a similar body for a yield curve). The ISAP 1 guidance is focused on assumptions that are prescribed, dictated by law, or made by the actuary, and is largely silent on assumptions/models from others in areas outside the actuary’s expertise.</p>