	Identification and instructions	
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	Robert Inglis These comments represent the views of the FRC.
Name of organization		Financial Reporting Council
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Our comments are not confidential
Instructions for filling in and sending the template	Please follow the following instructions for filling in the template: ⇨ Do **not** write in the yellow shaded cells ⇨ Write in the white cells ⇨ When commenting on a specific paragraph: ○ 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. **Please send the completed template, renamed with the organization's or individual's name, attached in Word Format, to** ISAP3.ISAP.comments@actuaries.org**.**	

	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	Yes
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	We consider that the draft ISAP is unnecessarily detailed in some areas such as the detailed guidance on assumptions which might be better provided in educational material. We consider that it would be helpful to distinguish between actuaries advising preparers and actuaries advising auditors in relation to IAS 19. The emphasis is on assumptions (and in particular the discount rate) with little guidance on methods. We have made particular suggestions concerning possible amendments to reflect these comments in our detailed response.
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?	Yes
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?	There is a lot of guidance on assumption-setting, particularly how the discount rate is set, which might sit better in educational material.
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 – we consider that this is adequately covered in IAS 19.
Q6.	Are there other matters that should be included in this standard	**Methods**

<table>
<tr><td></td><td>on actuarial work in connection with IAS 19 Employee Benefits? Are there some included here that should not be?</td><td>As approximations are often made in IAS 19 calculations we suggest that consideration should be given to whether ISAP 3 should cover methods and in particular:
when approximations might be made and what considerations should be made when choosing an approximate method (eg materiality and availability of data); and
how limitations of any models used should be communicated particularly in the context of materiality.
Projections

The guidance focuses on the preparation of information for the completed financial year. The information in subsequent years will depend on various factors including actual scheme experience and the level of discount rates. In many cases Directors and others responsible for accounts would benefit from an explanation of the factors which will affect the income statement and the balance sheet, possibly supplemented with illustrations. ISAP 3 might include a section on explaining how financial information might change in subsequent years as the pension scheme and actual experience develop.</td></tr>
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<tr><td></td><td>General Comments on the Exposure Draft</td><td></td></tr>
<tr><td></td><td colspan="2">We suggest that the IAA consider how ISAP 3 should apply to the work of the actuary supporting the preparer and the work of the actuary supporting the auditor. While there will be generic issues that apply to the work of both roles, given the different nature of the work there may be the need for specific principles that apply just to the work of each. We suggest that, if it is not already doing so, the IAA should consult with the IAASB as well as the IASB.</td></tr>
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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)**
Introduction	This International Standard of Actuarial Practice (ISAP) provides guidance to actuaries when performing actuarial services in connection with International Accounting Standard 19 (IAS 19) Employee Benefits. The reporting entity is responsible for all the information reported in its IFRS report, including information reported in accordance with IAS 19. This means the reporting entity is responsible for the categorization of employee benefit plans, the choice of actuarial assumptions and methods used to measure employee benefit obligations, and disclosures about employee benefit plans. IAS 19 encourages, but does not require, a reporting entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. In practice, an actuary may advise on a range of issues arising from the reporting entity's application of IAS 19, including the measurement of short-term, post-employment, termination, or other long-term employee benefits and disclosures in the IFRS report. The reporting entity's auditor might also take account of the work of an actuary working either as management's expert or as an auditor's expert. This ISAP is intended to: • ~~Facilitate convergence in actuarial practice in connection with IAS 19 within and across jurisdictions;~~ • Increase reporting entities' and their auditors' confidence in actuaries' contributions to reporting of employee benefits in accordance with IAS 19;	The auditor might also consider actuarial work in providing the audit opinion on a reporting entity's financial statements. The auditor might consider the work carried out by the reporting entity's actuarial advisor – management's expert – or use an independent expert reporting directly to the auditor – an auditor's expert. Given the diverse nature of employee benefit plans within and across jurisdictions, we do not consider that convergence in actuarial practice should be prime intention of the ISAP.

	• Increase public confidence in actuaries' services for IAS 19 purposes; and • Demonstrate the IAA's commitment to support the work of the IASB in achieving high quality, transparent, and comparable, financial reporting internationally, as envisaged by the Memorandum of Understanding between the IAA and the IASB.	
1.1	**Purpose** – This ISAP provides guidance to actuaries when performing actuarial services in connection with IAS 19.~~The focus is on actuarial services provided for a reporting entity's preparation of an actual or pro-forma IFRS report.~~ Its purpose is to give intended users confidence that: • Actuarial services for the reporting entity and its auditor are carried out professionally and with due care, enabling the reporting entity to prepare accounting numbers and disclosures in compliance with IAS 19, and taking into account the reporting entity's accounting policies; • The results are relevant to their needs, are presented clearly and understandably, and are complete; and • The assumptions and methodology (including, but not limited to, models and modelling techniques) used are disclosed [to whom] appropriately.	The second sentence appears to limit the standard to work done for the reporting entity and ignore work done for auditors. The actuarial services do not have to comply with IAS 19 as it is the reporting entity that has to comply. The actuarial services have to comply with ISAP 3. We consider that there is ambiguity in the third bullet. The intended users of the financial statements include current and potential investors and creditors. IAS 19 defines the disclosures concerning employee benefit plans that are required to be included in those financial statements. These disclosures are the responsibility of the reporting entity and are subject to audit. We assume what is intended here is the actuary's obligation to disclose to the reporting entity or the auditor.
1.2	**Scope** – ~~This ISAP provides guidance to actuaries when performing actuarial services in connection with IAS 19. The focus is on services provided for a reporting entity's preparation of an actual or pro-forma IFRS report for any type of employee benefit the reporting entity determines to be covered by IAS 19. An actuary who is performing~~	The first two sentences of the current wording just repeat the wording of paragraph 1.1. We do not understand the relevance of the list of possible capacities. In any event, we consider that if the focus is limited to services provided for a reporting

	~~these actuarial services may be acting in one of several capacities such as an employee, management, director, external adviser, auditor, or supervisory authority of the reporting entity.~~This ISAP applies to actuaries when performing actuarial services concerning the financial reporting of employee benefit plan obligations under IAS 19.	entity's preparation of financial statements we are uncertain what an actuary acting as supervisory authority of the reporting entity would be doing, and, if acting as auditor, the actuary may have a conflict of interest. The suggested wording conforms with that used in ISAP 1 and 2.
2.1	**Knowledge of Accounting Requirements** – To be confident in performing the actuarial services, the actuary should have or obtain sufficient knowledge and understanding of IAS 19, relevant paragraphs of other IFRSs to which IAS 19 refers, other relevant accounting standards including IFRIC 14 and IFRS 1, and the reporting entity's relevant accounting policies. The actuary should seek guidance from the principal when: a. The actuary is uncertain whether another IFRS is relevant to the actuarial services; or b. The actuary ~~envisions~~ considers that a specific component of the actuarial services may be subject to alternative interpretations of IAS 19, a relevant paragraph of another IFRS, or a relevant accounting policy.	The list of documents in the list is not complete. We suggest that "considers" implies a reasoned judgement where as "envisions" implies a greater degree of imagination/subjectivity.
2.6		It appears to us that that this paragraph is focused on the actuarial work required in producing a set of recommended assumptions for input in to the models used to produce the figures required by IAS 19. However, the role of the actuary may be to comment on the assumptions selected rather than advising on the assumptions to be selected, for example, if providing assurance to management or the auditor on the reasonableness of the assumptions used. We suggest that the ASC revisit this section to consider assumptions from a broader perspective including considering the work required to give assurance on selected assumptions.

2.6.2	**Mortality Assumption** – When advising the principal on the selection of the mortality assumption, the actuary should recommend a mortality assumption that reflects ~~the mortality of plan members~~ plan membership both during and after employment ~~taking into consideration expected~~ and should include allowance for changes in members' future mortality rates. How allowance for changes in members' future mortality rates is made is a matter for judgement but possible methods include but are not limited to: • ~~The actuary may do so by using~~ the use of a generational table (that is, a matrix including separate mortality tables for each year of birth); and • ~~The actuary may also use~~ simplified mortality projection methods such as projecting the mortality rates for an appropriate period.		We consider the first two amendments are better wordings. These are two possible approaches; there are a number of others. This might be better included by reference to educational material.
2.6.3	**2.6.3(a)(ii)**	Identify an appropriate spot-rate yield curve ~~(as described in b. below)~~. The IAA monograph *Discount Rates in Financial Reporting A Practical Guide* provides guidance on methods that might be used to determine appropriate yield curves.	There appears to be a disproportionate amount of guidance on the discount rate – this could give the impression that some other assumptions are not very important Detail on how to construct a discount rate might be better found in educational material rather than the standard. We suggest deleting subparagraph 2.6.3(b) and (c) and including a reference to the IAA's discount rate monograph – *Discount Rates in Financial Reporting A Practical Guide* – in paragraph 2.6.3(a)(ii).
	2.6.3(b)	delete	
	2.6.3(c)	delete	
2.6.4			There can be material differences in the inflation assumption used in different regions and within regions – there appears to be too little emphasis placed on this assumption compared with the discount rate
2.6.5	Assumptions Regarding Changes in Employee Benefit Levels – Depending on the nature of the employee benefits, future benefit levels may reflect factors other than general price inflation. When the		

	actuary is advising the principal on the selection of an assumption about future benefit levels, the actuary should consider relevant factors. Relevant factors are a matter for judgement but might include: merit or promotional salary increases, investment returns on actual or notional assets, ~~technological advances, changes in benefit utilisation or delivery patterns,~~ changes in social insurance benefits, changes in offsets of benefits provided by other parties, expected changes in mandated benefits, and changes in the demographic profile of plan participants.	The list of eight relevant factors that should be considered appears to be presented as an exhaustive list. This makes this requirement look like a rule rather than a principle.
2.7.4	Asset Ceiling…….	We consider the application of the "Asset ceiling" deserves its own separate paragraph rather than being included within the paragraph on "Plan Assets"
2.9	**Proportionality** – The ~~effort involved~~ work performed in measuring employee benefit obligations should be proportional to the level of accuracy established for the assignment, taking into account materiality. The actuary is not required to recommend a particular type of assumption or a more refined ~~approach~~ methodology when, in the actuary's professional judgment, its use is not expected to produce materially different results. For example, using a simplified ~~approach~~ method to set the discount rate or assuming that all participants elect the most common option when a pension plan offers several actuarially equivalent life annuity payment options, may not produce IAS 19 results that are materially different from a more refined approach. ~~In this paragraph, all references to materiality are with respect to the actuarial services (see paragraph 2.2.1).~~	Paragraph 2.2.2 indicates that it is the materiality level concerning the financial statements that should be used in when advising the principal on the measurement of an obligation, the use of refined or approximate actuarial assumptions and methods.