

ISAP 3 – Actuarial Practice under IAS 19 Employee Benefits - Exposure Draft

This document contains the exposure draft of proposed ISAP 3 – Actuarial Practice under IAS 19 Employee Benefits. Please review this exposure draft and determine how you wish to address the issues it covers within your association. Comments (from your organization, your members, or other parties to which you forward these exposure drafts) should be addressed to ISAP3.ED.comments@actuaries.org with “ISAP – IAS 19” in the email header. The comment should make clear if it is a personal response or one representing a particular association, standard-setter, or other entity.

The preferred format for submitting comments is email or an MS Word (or equivalent) attachment. If a markup of the exposure draft is submitted we recommend using the Comment feature liberally, giving reasons for proposing the change. All comments will normally be posted to the International Actuarial Association website identifying the commenter(s). However, in exceptional cases, in response to a request which the IAA Secretariat is satisfied is for a valid reason, comments may be either posted to the website anonymously or withheld from the website.

The deadline for comments to be considered by the drafting committee is 14 March 2014.

This document was approved for exposure by the Actuarial Standards Committee in October 2013.



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

International Standard of Actuarial Practice3 (ISAP 3)

Actuarial Practice under IAS 19 Employee Benefits

NOTE: Defined terms in this Exposure Draft are marked in blue coloured text with dotted underline. The defined terms in the approved final ISAP will have hyperlinks to the relevant definition in the glossary. Please note that the hyperlinks have not been created in this Exposure Draft.

**Approved by the IAA Council
[Day Month Year]**

ISAP 3 – Actuarial Practice under IAS 19 Employee Benefits - Exposure Draft

TABLE OF CONTENTS

Preface.....	ii
Introduction	iii
Section 1. General	1
1.1 Purpose.....	1
1.2 Scope.....	1
1.3 Compliance	1
1.4 Relationship to ISAP 1.....	1
1.5 Glossary.....	1
1.6 Cross References.....	1
1.6 Effective Date.....	2
Section 2. Appropriate Practices	3
2.1 Knowledge of Accounting Requirements	3
2.2 Materiality	3
2.3 Material Errors, Omissions or Non-conformance.....	3
2.4 Constructive Obligations.....	3
2.5 Categorization of Employee Benefit Plan.....	3
2.6 Actuarial Assumptions	4
2.7 Plan Assets	8
2.8 Attribution of Benefits to Service Periods	8
2.9 Proportionality.....	8
Section 3. Communication	9
3.1 Disclosures in the Report	9
Appendix	10

ISAP 3 – Actuarial Practice under IAS 19 Employee Benefits - Exposure Draft
Preface

[Drafting Notes: when an actuarial standard-setting organization adopts this standard it should:

1. *Replace “ISAP” throughout the document with the local standard name, if applicable;*
2. *Modify references to ISAP 1 in paragraphs 1.3, 1.4, 2.2.1, 2.6, 2.6.7, 2.7.1, and 3.1 to point to the local standard(s) that are substantially consistent with [ISAP 1](#), rather than referring to [ISAP 1](#) directly, if appropriate;*
3. *Choose the appropriate phrase and date in paragraph 1.7;*
4. *Review this standard for, and resolve, any conflicts with the local [law](#) and code of professional conduct; and*
5. *Delete this preface (including these drafting notes) and the footnote associated with paragraph 1.7.]*

This International Standard of Actuarial Practice (ISAP) is a model for actuarial standard-setting bodies to consider. The International Actuarial Association ([IAA](#)) encourages relevant actuarial standard-setting bodies to consider taking one of the following courses of action, if it has been determined that this ISAP is relevant for [actuaries](#) in their jurisdiction:

- Adopting this ISAP as a standard with appropriate modification, where items covered in this ISAP are not currently contained in existing actuarial standards;
- Endorsing this ISAP as a standard as an alternative to existing standards;
- Modifying existing standards to obtain substantial consistency with this ISAP; or
- Confirming that existing standards are already substantially consistent with this ISAP.

Such an adopted standard (rather than this ISAP) applies to those [actuaries](#) who are subject to such body’s standards, except as otherwise directed by such body (for example with respect to cross-border [work](#)).

When this ISAP is translated, the adopting body should select three verbs that embody the concepts of “must”, “should”, and “may”, as described in paragraph 1.6 – Language of [ISAP 1](#), even if such verbs are not the literal translation of “must”, “should”, and “may”.

This ISAP is not binding upon an [actuary](#) unless the [actuary](#) states that some or all of the [work](#) has been performed in compliance with this ISAP.

This ISAP was adopted by the [IAA](#) Council in [month year].

ISAP 3 – Actuarial Practice under IAS 19 Employee Benefits - Exposure Draft

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](#).

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](#);
- 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.

Section 1. General

- 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](#) are carried out professionally and with due care, 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 appropriately.
- 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 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](#).
- 1.3. Compliance** – There are situations where an [actuary](#) may deviate from the guidance of this ISAP but still comply with it:
- 1.3.1. [Law](#) may impose obligations upon an [actuary](#). Compliance with requirements of [law](#) that conflict with this ISAP is not a deviation from it.
- 1.3.2. The actuarial code of professional conduct applicable to the [work](#) may conflict with this ISAP. Compliance with requirements of the code that conflict with this ISAP is not a deviation from it.
- 1.3.3. The [actuary](#) may depart from the guidance in this ISAP while still complying with it if the [actuary](#) provides, in any [report](#), an appropriate statement with respect to the nature, rationale, and effect of any such departure.
- Paragraphs 2.6, 2.8, and 2.9 of [ISAP 1](#) cover the situation where the [actuary](#) is directed to use certain assumptions or methodology. The [actuary](#) who complies with these paragraphs is not deviating from this ISAP.
- 1.4. Relationship to ISAP 1** – Any [actuary](#) who asserts compliance with this ISAP (as a model standard) must also comply with [ISAP 1](#). References in [ISAP 1](#) to “this ISAP” should be interpreted as applying equally to this ISAP 3, where appropriate.
- 1.5. Glossary** – This ISAP uses various terms whose specific meanings are defined in the Glossary. These terms are highlighted in the text with a dashed underscore and in blue, which is a hyperlink to the definition (e.g., [actuary](#)).
- 1.6. Cross References** – This ISAP refers to the content of [IAS 19](#) as amended by the IASB in June 2011. If [IAS 19](#) is amended, restated, revoked, or replaced after June 2011, the [actuary](#) should consider the extent to which the guidance in this ISAP remains applicable and appropriate.

Comment [RE1]: 1.1 We would suggest either:
-removing „and are complete“,
-replacing by and are qualified,
-giving a definition of complete

Comment [RE2]: Clarity? We would suggest:
On references to “this ISAP” in this text, ISAP1 and ISAP3 should be considered.

1.7. Effective Date – This ISAP is effective for {[actuarial services](#) performed/[actuarial services](#) commenced/[actuarial services](#) performed with respect to an [IFRS report](#) issued}¹ on or after [Date].

¹ *[Phrase to be selected and date to be inserted by standard setter adopting or endorsing this ISAP.]*.

Section 2. Appropriate Practices

- 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, and the [reporting entity](#)'s relevant [accounting policies](#). The [actuary](#) should seek guidance from the [principal](#) when:
- The [actuary](#) is uncertain whether another [IFRS](#) is relevant to the [actuarial services](#); or
 - The [actuary](#) envisions 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](#).
- 2.2 **Materiality** – The [actuary](#) should differentiate between materiality with respect to the [actuarial services](#) and materiality with respect to the [IFRS report](#).
- 2.2.1 The [actuary](#) should be guided by [ISAP.1](#) in assessing materiality with respect to the [actuarial services](#). The [principal](#) or [reporting entity](#) (not the user of the [IFRS report](#)) is the [intended user](#) of the [actuarial services](#) for this purpose.
- 2.2.2 The [reporting entity](#) is responsible for assessing materiality with respect to the [IFRS report](#). The [actuary](#) should seek guidance from the [principal](#) or [reporting entity](#), as appropriate for the [work](#), regarding materiality with respect to the [IFRS report](#) and take that guidance into account when advising the [principal](#) on whether to measure an obligation, the use of refined or approximate actuarial assumptions and methods, and the level of detail for presenting results.
- 2.2.3 In the remainder of this ISAP, any use of “material” or “materiality” is with respect to the [IFRS report](#) unless stated otherwise.
- 2.3 **Material Errors, Omissions, or Non-conformance** – If, the [actuary](#) becomes aware that information used in performing the [actuarial services](#) – including information about employees and their dependents or beneficiaries, employee benefit plan provisions and operations, plan assets, the [reporting entity](#)'s [accounting policies](#), and the [reporting entity](#)'s categorization of employee benefit plans – contains material errors, omissions, or fails in another material manner to conform to [IAS 19](#), other relevant [IFRSs](#), or the [reporting entity](#)'s [accounting policies](#), the [actuary](#) should inform the [principal](#) and seek to resolve the matter. 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](#). This guidance does not impose additional duties beyond the scope of the [actuarial services](#) to search for or analyse such errors, omissions, or failures to conform to [IFRSs](#) or [accounting policies](#).
- 2.4 **Constructive Obligations** – The [actuary](#) may rely on representations made by the [principal](#) regarding the existence and nature of any formal or informal practices that give rise to a [constructive obligation](#). The [actuary](#) should disclose reliance on such representations in the [report](#).
- If it becomes apparent to the [actuary](#) in the course of performing the [actuarial services](#) that significant uncertainties exist regarding such representations, the [actuary](#) should seek clarification from the [principal](#). If the uncertainty is not resolved in a satisfactory way before the [actuary](#) issues the [report](#), the [actuary](#) should be guided by paragraph 2.3. This guidance does not impose additional duties beyond the scope of the [actuarial services](#) to search for or analyse [constructive obligations](#) that go beyond formal plans or agreements.
- 2.5 **Categorization of Employee Benefit Plan** – The [reporting entity](#) is responsible for determining the categorization of its employee benefit plans under [IAS 19](#) as short-term,

defined benefit post-employment, defined contribution post-employment, termination, or other long-term.

- 2.5.1 The [actuary](#) may advise the [principal](#) regarding the categorization of an employee benefit plan. When providing such advice, the [actuary](#) should exercise [professional judgment](#) when an employee benefit plan has characteristics of multiple categories (such as retirement plans that combine elements of defined benefit and defined contribution plans, or employment-related injury benefits that include both medical care and wage replacement).
- 2.5.2 The [actuary](#) should apply the [reporting entity](#)'s categorization of an employee benefit plan. If it is or becomes apparent to the [actuary](#) in the course of performing the [actuarial services](#) that such categorization fails in a material manner to conform to [IAS 19](#), the [actuary](#) should be guided by paragraph 2.3.
- 2.5.3 If the [actuary](#) is uncertain as to the [reporting entity](#)'s [IAS 19](#) categorization of an employee benefit plan, the [actuary](#) should seek guidance from the [principal](#).

2.6 **Actuarial Assumptions** – The [reporting entity](#) is responsible for selecting assumptions that represent the [reporting entity](#)'s best estimates of the variables that will determine the ultimate costs of its [employee benefits](#). The [actuary](#) may advise the [principal](#) regarding the selection of some or all of the assumptions to be used in the [actuarial services](#). In doing so, the [actuary](#) should be guided by paragraphs 2.6 – 2.9 of [ISAP 1](#), taking into account [IAS 19](#)'s requirements regarding assumptions used to measure defined benefit post-employment plans, termination benefits, or other long-term benefits. [IAS 19](#) requires that these assumptions be unbiased and mutually compatible, and that financial assumptions be based on market expectations at the [measurement date](#) for the period over which the obligations are to be settled.

2.6.1 **General Approach for Selecting Assumptions** – When advising the [principal](#) on the selection of actuarial assumptions, the [actuary](#) should:

- a. Identify the types of assumptions needed to perform the [actuarial services](#);
- b. Evaluate information relevant to each type of assumption;
 - i. With respect to financial assumptions, the [actuary](#) should review information on market expectations at the [measurement date](#). Such data may include corporate and government bond yield curves, yields on nominal and inflation-indexed debt, recent changes in price indices, forecasts of inflation, employment data and projections, and economic data and analyses prepared by experts.
 - ii. With respect to demographic assumptions, the [actuary](#) should review information that, in the [actuary](#)'s [professional judgment](#), is relevant to the population covered by the [reporting entity](#)'s [employee benefits](#). Such data may include: the experience of the covered population to the extent credible; analyses prepared by experts such as published tables or experience studies; studies or reports on general trends relevant to the particular demographic assumption; the [reporting entity](#)'s future expectations; and relevant factors known to the [actuary](#) that may affect future experience such as the economic conditions of the geographic area or industry, availability of alternative employment, and the [reporting entity](#)'s human resource policies or practices.

Comment [RE3]: While, we have no direct suggestion, it was discussed within our review that the paragraph is not detailing specific comment on scheme assumptions such as turn over rate or indexation. This seems a bit unbalanced between specific assumptions and assumptions discussed in 2.6.2 and following.

- c. Consider which parameters assumptions should vary by taking into account the degree to which a particular parameter (for example, gender, age, birth year, service, employment type, or calendar year) is expected to affect future plan experience with respect to that assumption, and whether different assumption formats are appropriate for different segments of the covered population;
 - d. Recommend assumptions that are in accordance with [IAS 19](#) (that is, they are unbiased, mutually compatible and, in the [actuary](#)'s [opinion](#), would be appropriate to represent the [reporting entity](#)'s best estimate).
- 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 both during and after employment taking into consideration expected changes in members' future mortality rates. The [actuary](#) may do so by using a generational table (that is, a matrix including separate mortality tables for each year of birth). The [actuary](#) may also use simplified mortality projection methods such as projecting the mortality rates for an appropriate period.
- 2.6.3 **Discount Rate Assumption** – When advising the [principal](#) on the selection of the discount rate assumption, the [actuary](#) should recommend an assumption that takes into account [IAS 19](#)'s requirement that the discount rate reflect market yields at the [measurement date](#) on high quality corporate bonds or government bonds, as appropriate, where such bonds should be consistent with the currency and estimated term of the employee benefit obligation.
- a. General Approach – Unless the [actuary](#) has determined that a simplified approach is appropriate (as described in c. below), the [actuary](#) should:
 - i. Project cash flows on and after the [measurement date](#) of benefits attributed to employee service up to the [measurement date](#);
 - ii. Identify an appropriate spot-rate yield curve (as described in b. below);
 - iii. Use the spot rates to determine the present value of the defined benefit obligation at the [measurement date](#); and
 - iv. Determine a single weighted-average discount rate that produces substantially the same present value of the defined benefit obligation for disclosures in the [IFRS report](#) and other appropriate calculations (for example, net interest or service cost).
 - b. Appropriate Yield Curve – The [actuary](#) may develop an appropriate yield curve from bond yield data at the [measurement date](#). Alternatively, the [actuary](#) may apply a third party's yield curve, which the [actuary](#) has determined is appropriate for the purpose of selecting an [IAS 19](#) discount rate (or has adjusted so as to make it appropriate).
 - i. Corporate Bond Characteristics – When developing a yield curve – or assessing the appropriateness of (or making adjustments to) a third party's yield curve – from a bond universe that includes corporate bonds, the [actuary](#) should consider the characteristics of those bonds, including the following:
 - Currency – Corporate bonds should be denominated in the same currency as the [employee benefits](#) are denominated.

- Quality – Corporate bonds should be of high quality. In using bond-quality data from internationally recognised credit rating agencies, the [actuary](#) should be aware of rating differences between such agencies and have (or understand the yield curve developer’s) rules for dealing with such differences. The [actuary](#) should also be aware of time lags in the credit rating process. Under normal market conditions, time lags may be insignificant. Under abnormal conditions, the [actuary](#) may need to adjust the yield curve for time lags.
 - Type – The cash flows of some corporate bonds are not fully predefined in timing and amount (for example, convertible or callable bonds). If such bonds are included, the [actuary](#) should understand the effect on the yield curve and make adjustments as appropriate.
 - Market Depth – High quality corporate bonds should be included only if the market for such bonds is deep overall; however, the market need not be deep at every duration. A market is considered by the Bank for International Settlements, for example, to be deep and liquid when “participants can rapidly execute large-volume transactions with little impact on prices.”² Indicators of market depth include trading volume and bid-ask spreads (for example, wide bid-ask spreads may indicate a lack of depth).
 - Outliers – Market yields on some high quality corporate bonds may be substantially different from the yields on most bonds of similar quality and duration included in the universe. The [actuary](#) should have (or understand the yield curve developer’s) rules for dealing with such outliers. For example, the [actuary](#) (or yield curve developer) might exclude such bonds from the universe, or the [actuary](#) may make appropriate adjustments to account for a third party’s inclusion of outliers in developing the yield curve.
- ii. Curve-fitting, Interpolation, and Extrapolation – When the [actuary](#) is constructing the yield curve from the available bond data, the [actuary](#) should apply appropriate curve-fitting, interpolation, or extrapolation techniques. The [actuary](#) may use interpolation or extrapolation techniques to estimate yields at durations where the [actuary](#) considers the appropriate bond market data unreliable or such data does not exist. Such techniques may take into account (with an appropriate spread adjustment) other market data sources such as yields on government or lower-rated corporate bonds or the swaps market. For example, at durations beyond the longest dated market bond, the [actuary](#) may use extrapolation techniques built off spot rates or forward rates, or price consistent approaches. The [actuary](#) should be mindful that the choice of extrapolation technique may have a significant impact on the measurement of the liabilities when projected benefit cash flows extend beyond the longest dated market bond. In particular, relatively small

² Committee on the Global Financial System, Publication No. 13, October 1999.

changes in the shape of the yield curve at shorter durations may be magnified when extrapolated over a long period. 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.

- c. Simplified Approach – The [actuary](#) may use a simplified approach to recommend a discount rate rather than following the general approach described in a. above. The [actuary](#) should understand the data and assumptions on which the simplified approach is based and the circumstances in which it can be applied appropriately. The simplified approach should take into account both the duration of the projected benefit cash flows and their shape (that is, whether the cash flows over time are smooth or lumpy).
 - i. The [actuary](#) may recommend a single discount rate that, in the [actuary's professional judgment](#), approximates the weighted-average rate that would be determined under a.iv. above.
 - ii. The [actuary](#) may apply a market index or other reference rate, with adjustments if appropriate. The [actuary](#) should understand the bond data and methodology used to construct the index or reference rate, and adjust the rate as appropriate for the duration and shape of the projected benefit cash flows.
- 2.6.4 General Price Inflation Assumption – When the [actuary](#) is advising the [principal](#) on the selection of a general price inflation assumption, the [actuary](#) should review information on market expectations at the [measurement date](#). Such information may include: changes in price indices, implicit price deflators, yields on nominal and inflation-indexed debt (taking into account the effect of any significant supply-demand imbalances), forecasts of inflation, relevant regional factors, and central bank monetary policy.
- 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 such as 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.
- 2.6.6 Assumptions Selected for Other Purposes – When advising the [principal](#) on the selection of assumptions, the [actuary](#) may consider assumptions selected for other purposes (such as to determine funding of the employee benefit plan) or demographic assumptions used at a prior [measurement date](#), if in the [actuary's professional judgment](#), those assumptions satisfy [IAS 19's](#) requirements.
- 2.6.7 Using Prescribed Assumptions – When using assumptions prescribed by the [principal](#), the [actuary](#) should be guided by paragraph 2.8 of [ISAP 1](#). If, in the [actuary's professional judgment](#), assumptions prescribed by the [principal](#) fail in a material manner to conform to [IAS 19](#), other relevant [IFRSs](#) or the [reporting entity's accounting policies](#), the [actuary](#) should be guided by paragraph 2.3.
- 2.6.8 Change in Process for Developing Assumptions – The [actuary](#) generally should apply a consistent process from year to year to develop recommended assumptions

for a particular [reporting entity](#). When the [actuary](#) considers it appropriate to change the process used to develop a recommended assumption, the [actuary](#) should discuss the change with the [principal](#), and should seek guidance from the [principal](#) regarding what, if any, information about the change should be disclosed in the [report](#). For example, if the [principal](#) determines that the change in the assumption-setting process may be subject to IAS 8, the [principal](#) may ask the [actuary](#) to disclose the nature of the change and its general effect in the [report](#).

- 2.7 **Plan Assets** – Plan assets often play a significant role in the management of an employee benefit plan. When the [actuarial services](#) take plan assets into account, the [actuary](#) should be guided by the following:
- 2.7.1 **Asset Values Supplied by Others** – The [actuary](#) may rely on asset values prepared by a third party (such as a trustee or investment manager) and, when doing so, should be guided by paragraph 2.3.3 of ISAP 1.
- 2.7.2 **Qualifying Insurance Policies** – When plan assets include qualifying insurance policies, the [actuary](#) should appropriately reflect those policies in the calculation of the obligation. For example, the [actuary](#) should appropriately differentiate between the [reporting entity](#)'s employee benefit obligations and those that an insurer has assumed.
- 2.7.3 **Asset-related Benefit Liabilities** – The [actuary](#) should apply [professional judgment](#) to appropriately value [employee benefits](#) when the benefit level is affected by the value of plan assets (for example, when benefit levels are linked to the return on plan assets (see paragraph 2.6.5) or depend on whether there is a surplus).
- 2.7.4 **Asset Ceiling** – When there is a surplus (that is, the fair value of plan assets exceeds the present value of the defined benefit obligation for the plan), the [actuary](#) should consider whether the asset ceiling applies. The asset ceiling applies when the surplus exceeds the present value of economic benefits available to the [reporting entity](#) in the form of refunds from the plan or reductions in future contributions to the plan. If the asset ceiling applies – or the [actuary](#) is uncertain whether it applies – the [actuary](#) should seek guidance from the [principal](#) whether to apply International Financial Reporting Interpretations Committee Interpretation number 14 (IFRIC 14).
- 2.8 **Attribution of Benefits to Service Periods** – When advising the [principal](#) on the attribution of plan benefits to service periods, the [actuary](#) should exercise [professional judgment](#) to address plan designs whose treatment is not clear from [IAS 19](#), such as how to attribute benefits if a benefit formula is expressed as a constant proportion of current salary.
- 2.9 **Proportionality** – The effort involved 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 when, in the [actuary](#)'s [professional judgment](#), its use is not expected to produce materially different results. For example, using a simplified approach 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).

Comment [RE4]: Should this be referencing the actuarial method of the projected unit credit method?

Comment [RE5]: You may want to consider moving this principle in the Introduction as in ISAPI.

Section 3. Communication

- 3.1 **Disclosures in the Report** – In addition to complying with Section 3 of [ISAP.1](#), the [actuary](#) should disclose in the [report](#):
- a. Any material deviation from the guidance in this ISAP, where materiality is with respect to the [actuarial services](#) (see paragraph 2.2.1) (1.3.3);
 - b. Any unresolved material errors, omissions, or non-conformance with [IAS.19](#), other relevant [IFRSs](#), or the [reporting entity](#)'s [accounting policies](#) (2.3);
 - c. Any reliance on the [principal](#)'s representations regarding [constructive obligations](#) (2.4); and
 - d. Any information regarding a change in the process for selecting assumptions that is requested to be disclosed (2.6.8).

APPENDIX

Note: this appendix is provided for informational purposes, and is not part of the ISAP.

Background

[IAS 19](#) prescribes employers' accounting and disclosure requirements for their [employee benefits](#) other than share-based payments, which are accounted for in accordance with IFRS 2 Share-based Payment. On 16 June 2011, the IASB published an amended [IAS 19](#). That amended standard is applicable for annual accounting periods beginning on or after 1 January 2013, with early adoption permitted.

A key principle of [IAS 19](#) is that it generally requires the cost of providing [employee benefits](#) to be recognised in the period in which the employee performs services, rather than when the benefit is paid.

Categorization of Employee Benefit Plans

[IAS 19](#) defines four categories of [employee benefits](#) (excluding equity share-based compensation):

- **Short term benefits** expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.
- **Post-employment benefits**, such as defined contribution retirement plans, pensions, lump sum payments on retirement, post-employment life insurance and post-employment medical care. This category is further broken down between defined benefit and defined contribution plans:
 - Under a defined contribution plan, the [reporting entity](#) pays fixed contributions into a fund but has no legal or [constructive obligation](#) to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits;
 - A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.
- **Other long-term [employee benefits](#)**, such as long-service leave or sabbatical leave, jubilee or other long-service benefits, and long-term disability benefits.
- **Terminations benefits** payable as a result of the [reporting entity](#)'s decision to terminate the employee or the employee's decision to accept an offer of benefits in exchange for termination of employment.

Accounting Treatment Depends on Categorization

Short-term benefits and defined contribution post-employment benefits. For short-term benefits or defined contribution post-employment plans, the undiscounted amount of the benefits or contributions expected to be paid is recognised in the accounting period the employee renders service.

Defined benefit post-employment plans and other long-term [employee benefits](#). Defined benefit post-employment benefits and other long-term [employee benefits](#) are generally attributed to employees' service. The employer recognises a balance sheet liability/asset equal to the present value of these benefits, attributed to service through the [measurement date](#) (the "present value of the defined benefit obligation"), minus the fair value of plan assets at the [measurement date](#). This net liability/asset is called the net defined benefit liability/asset. The net asset recognised on the

employer's balance sheet is limited to the "asset ceiling," defined as the present value of economic benefits available to the employer as refunds from the plan and/or as reductions in future contributions.

Employers must recognise service cost and net interest (on the net defined benefit liability/asset) in the income statement. Service cost includes the cost of benefits attributed to service during the accounting period, changes in the defined benefit obligation due to plan amendments or curtailments occurring in the accounting period, and gains or losses from settlements occurring in the accounting period. Net interest is calculated by applying the discount rate (used to measure the defined benefit obligation) to the net defined benefit liability/asset, adjusted for contributions and benefit payments during the accounting period.

All other changes in the net defined benefit obligation/asset, including the difference between actual investment return and the expected return determined using the discount rate, changes in the defined benefit obligation from discount rate or other assumption changes, and experience gains and losses, are recognised immediately in Other Comprehensive Income (OCI).

[IAS 19](#) provides a special rule for long-term disability or employment-related injury benefits. When the level of benefit is the same for any employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability or employment-related injury.

Termination benefits. Termination benefits are triggered by the termination of employment, and are recognised when the [reporting entity](#) can no longer withdraw the offer of those benefits or, if earlier, when the [reporting entity](#) recognises associated restructuring costs. Termination benefits may take various forms, such as lump sum payments, pension benefit enhancements, or salary continuation for a specified period.

IFRS Report Disclosures

[IAS 19](#) requires the [reporting entity](#) to disclose information in its [IFRS report](#) that:

- Explains the characteristics of defined benefit plans and risks associated with them;
- Identifies and explains the amounts in the [IFRS report](#) arising from defined benefit plans; and
- Describes how its defined benefit plans may affect the amount, timing, and uncertainty of the [reporting entity](#)'s future cash flows.

[Actuarial](#) engagements in connection with [IAS 19](#) often include assisting [reporting entities](#) in meeting these disclosure objectives. Areas where actuaries may provide particularly valuable input include:

- Disclosures about plan characteristics or risks that are unusual, [reporting entity](#)-specific or plan-specific, such as post-employment medical benefit plans with no lifetime claims limit, plan-specific limitations on refunds of surplus to the employer, concentrations of plan assets in one class of investments, or counter-party risk associated with material expected insurance recoveries;
- Disclosures about existing risk management strategies such as enterprise risk management, asset-liability matching, or longevity swaps;
- Explanation of amounts in the [IFRS report](#), including the reconciliation of amounts shown in the [IFRS report](#) from the beginning to the end of the year;
- The appropriate level of aggregation or disaggregation of employee benefit plans according to their characteristics and risks;

- Disclosures about how defined benefit plans may affect the amount, timing, and uncertainty of the [reporting entity](#)'s future cash flows (such as expected funding contributions);
- Disclosures about the maturity profile of the defined benefit obligation; and
- Disclosures about the significant assumptions used to determine the present value of the defined benefit obligation, their "reasonably possible" variation, and the consequent change in the present value of the defined benefit obligation at the [measurement date](#). [IAS 19](#) does not establish a numeric threshold for determining significance or reasonably possible variations, but refers to IFRS 7 (paragraph B19) for the principles to be used to quantify "reasonably possible" variations.