



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

January 21, 2008

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir

Re: IAA comments on Exposure Draft of Proposed Improvements to International Financial Reporting Standards

I refer to earlier correspondence relating to the Exposure Draft of Proposed Improvements to International Financial Reporting Standards, and am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments on the proposed amendments to IAS 19 Employee Benefits.

These comments have been prepared by the Accounting Subcommittee of the Pensions & Employee Benefits Committee of the IAA. If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the subcommittee, Gary Hibbard, or the chairperson of the committee, Esko Kivisaari. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Yves Guérard
Secretary General

Attachment: Comments

cc: Esko Kivisaari

**A Commentary on
EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS
TO INTERNATIONAL FINANCIAL REPORTING STANDARDS
Released by the International Accounting Standards Board: October 2007**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty-seven Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

The IAA appreciates the opportunity to provide comments on this IASB document. Our comments are restricted to the proposed amendments to IAS 19 (Employee Benefits).

Due Process

These comments have been prepared by the Accounting Subcommittee of the Pensions and Employee Benefits Committee of the IAA. The members of the Committee are listed in an Appendix to this statement. The response has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

IAA Comments

We have restricted our comments to the specific questions raised by the IASB as part of this consultation. We would nonetheless welcome the opportunity to discuss the general review of IAS 19 that the IASB has commenced. Although two IAA representatives participate on the working group supporting the IAS 19 review, if the IAA can be of assistance more directly we would be pleased to do so.

Question 14(a)

We support the proposal to distinguish between (negative) past service costs and curtailments, such that to the extent that a plan amendment reduces:

- past service benefits, the impact is treated as negative past service costs
- future service benefits, the impact is treated as a curtailment.

We are conscious that benefit designs vary considerably around the world. In practice, it may not be entirely clear to users of the amended Standard how to apply it in particular situations. For example, there are different views today whether the impact of the following changes should be treated as a negative past service cost or a curtailment:

- if the link to future salary on past service is broken on closing a plan to future accruals
- if the eligibility or vesting conditions for entitlement to benefits under a plan are worsened retrospectively (e.g. instead of completing five years’ service, an existing plan member must now complete 10 years’ service).

In both cases, we read the proposed amendment as indicating that the impact of the change would be treated as a negative past service cost. It may be helpful to those who will apply the amended Standard to provide additional guidance on these or other examples in the final document.

Question 15

The precise treatment of the “costs of administering the plan” is not defined under IAS 19 as currently worded. For example, does “costs of administering the plan” include investment manager fees for investing the assets of the plan?

The proposed amendment, although already stated in section 107, essentially avoids double counting. The practical question is whether the IASB, by moving this to the definitions, is thereby amending its preference for treating the expenses of administering a plan as an accrued liability of the plan, or as a running cost to be met by deduction from the *return on plan assets*, to a preference as a component of service cost. For the same plan, can the treatment of investment management costs be different to the treatment of other administration costs (such as paying pensions)? And would the treatment of “the costs of administering the plan” differ if:

- the plan does not have assets
- administration costs are paid by the employer rather than by the plan
- the plan does not have any active employees (i.e., if administration expenses were added to *service cost*, *service cost* would comprise administration expenses only).

It also does not specify what, if any, disclosures about this matter should be made in sponsor accounts.

We would suggest an amended definition of *return on plan assets*. We understand *return on plan assets* as defined to mean the actual return on plan assets, not the expected return on plan assets. Any administrative expense amounts included in the return are by definition expenses that occurred in the past. Expenses included in the defined benefit obligation are by definition expenses to be paid in the future. Expenses to be paid in the future are not related to the return on plan assets. When those expenses do occur (assuming the actuarial assumptions are precisely correct), the reconciliation of the obligation will show a gain equal to the amount of expense, and the return on assets will then reflect the amount of expense (since the expense is now historical) and will in that manner directly offset the gain on the obligation.

We would suggest proposed amendment to the definition of *return on plan assets* refer instead to “... less any cost of administering the plan (other than those for which the expected amount had been elsewhere expensed) and less ...”

Finally, it would be helpful if the treatment of taxation is clarified. Should taxes levied on asset returns be dealt with as an administrative expense or in a different way?

Question 16

Although the proposed amendment is well motivated, we believe it will cause unintended consequences as drafted.

Many employee benefits have eligibility criteria attaching relating to the completion of a given period of service – once those criteria are met, the employee is “entitled” to the accrued benefit.

In most countries, the vast majority of retirement plans set a vesting period for entitlement to benefits, with benefits only being able to be physically drawn on reaching retirement age in the future. As drafted, it appears that once an employee has met the vesting period, his/her accrued retirement benefits would be classified as short-term employee benefits. Taking the UK as an example, this would mean a reclassification of 90%+ of accrued liabilities from *post employment benefits* to *short-term employee benefits*.

This would appear to be avoidable if the definition of *short-term employee benefits* explicitly excludes employee benefits that meet the definition of *post employment benefits* (as has been done for the definition of *other long-term employee benefits*).

Questions 14(b) and 17

We have no comments on these questions.

Members of the IAA Accounting Subcommittee of the Pensions & Employee Benefits Committee

Gary Ryan Hibbard	Chairperson
Alfred E. Gohdes	Vice-Chairperson
Guillermo Ezcurra Lopez De La Garma	Instituto de Actuarios Españoles
Timothy Angelo Furlan	Institute of Actuaries of Australia
Ronald Gebhardtsbauer	American Academy of Actuaries
Gary Ryan Hibbard	Institute of Actuaries
Esko Kivisaari	Suomen Aktuaariyhdistys
Jaco Langner	Actuarial Society of South Africa
José Roberto Montello	Instituto Brasileiro de Atuária (IBA)
Brian Thomas Mulcair	Society of Actuaries in Ireland
Anne Grete Steinkjer	Den Norske Aktuarforening

Members of the IAA Pensions & Employee Benefits Committee

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Joan Angel Vergés Guerra	Col.legi d'Actuaris de Catalunya
Jill M Wagman	Canadian Institute of Actuaries
Ulrich Wehrli	Association Suisse des Actuaire

Full Member Associations of the IAA

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaire Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)
Institut des Actuaire de Côte d'Ivoire (Côte D'Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaire (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Íslenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuaruszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spoločnosť Aktuarov (Slovakia)
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Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of Chinese Taipei
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
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