Institute and Faculty of Actuaries

Exposure Draft of ISAP 3 Actuarial Practice under IAS 19 Employee Benefits

IFoA response

14 March 2014

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Deadline: 14 March 2014

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:	Representative of organisation
Name of organization		Institute and Faculty of Actuaries
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	
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?	Overall yes, however, the IFoA would ask the IAA to consider the possible ambiguity that may arise from repeating much of what is covered under IAS19 in a new, more prescriptive, guidance. The increased level of detail has perhaps created ambiguity in places, for example, is it intended that actuaries would nearly always follow the proposed yield curve approach, or is it only there as one example?
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	There is instruction that actuaries should determine whether the entity's policy is consistent with IFRSs generally. We would question whether it should in fact be included within the actuaries' remit. The guidance has some level of unnecessary detail in parts, for example, the somewhat lengthy discussion of the appropriate methodology for deriving a discount rate. It appears inconsistent that particular assumptions are discussed at some length, such as discount rates, and yet others with a potentially similar impact on results, such as inflation, are only mentioned briefly. The guidance should be consistent as to the extent of its consideration of the material assumptions. As an alternative approach, the IFoA suggests a focus on general principles, rather than low level detail. There is a substantial amount of text in the draft standard which may be better located in education material, such as an Information and Assistance Note (IAN). Where the text refers to actuarial practice, such as the use of a yield curve to derive the discount rate,

		it may be more efficient for future iterations if this detail, which is educational in nature through its highlighting of best practice, were located in a form that is more efficient for the IAA to update (such as an IAN). The concern we have is that to include this type of material in a standard may lead to the standard becoming out of date as practice changes rather than as the underlying standard for IAS19 is updated, which would be the more natural driver for amending this ISAP.
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?	The ISAP does not need to include text from IAS19 (for example: 2.6 repeats some of the text from IAS19). There is an extensive discussion of the recommended approach that an actuary should follow under 2.6 and this may be a too restrictive interpretation of IAS19 in all circumstances. Our general comments below consider this issue further.
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
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?	The standard does not distinguish between actuaries responsible for calculating the IAS19 results and actuaries responsible for collating the consolidated figures produced by, potentially, a number of other actuaries. Similarly, an actuary in the UK may be the actuary

		holding the full scheme data and could be requested only to calculate the liabilities on the assumptions provided to them (which have been determined through the involvement of another actuary). This 'turning of the handle / running the model' situation does not appear to be envisaged by the standard. Our general comments below consider this issue further.

	General Comments on the Exposure Draft	
	The draft standard requires the actuary to comment if the client instructions are inconsistent with IAS19. In the UK, it is common for the scheme actuary (the adviser to the scheme trustees) to perform the calculations using assumptions agreed by the principal and the principal's actuarial adviser. The scheme actuary performs the calculations as their trustee appointment provides them with the availability of data and the responsibility for the funding valuation (a common starting point for the preparation of accounting results). In such circumstances, the actuary performing the calculations uses assumptions determined by another, yet the draft standard requires comment on the consistency of those assumptions with IAS19. The actuary consequently faces a conflict of interest in that the arguments that they might advance in relation to advice to the employer for, or against, an assumption representing a best estimate may be inconsistent with the arguments they might advance on behalf of the Trustees in the context of negotiations with the employer on funding assumptions. The draft does not distinguish between actuaries performing calculations for one or more plans and those who are consolidating calculations produced by others, or indeed both these situations. While this does not appear to give rise to any specific difficulties in the draft standard, consideration could be given to including comment that identifies the different requirements on actuaries that can, in practice, exist; for example, within the introduction, purpose and / or scope sections. Throughout the draft standard there is some repetition of the requirements of IAS19 for example, that the assumptions should be best estimates, unbiased and mutually compatible. The IAA should consider if this level of repetition is required. This might be approached by considering the purpose of the ISAP, the reason for repetition and whether the purpose requires the repetition. There may also be some instances where there is a lack of clarity as to which provisions are mandatory and which are 'desirable' in a best practice scenario. The standard should be consistent with the underlying IAS19 requirements and where the IAA feel that better actuarial practice could be achieved through a stronger interpretation then educational guidance would be one way of highlighting this to actuaries.	

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)**
2.6	Consider whether this paragraph should separate the discount rate from other assumptions and the extent to which the discount rate should be consistent with other assumptions.	This paragraph requires assumptions (including the discount rate) to be unbiased and mutually compatible. One reading of IAS19 is that the requirement for consistency between assumptions is in relation to the cashflow projection assumptions, and does not extend to the discount rate, albeit we recognise that some may hold to a view that the discount rate should be consistent with the other assumptions. Therefore, we would welcome greater clarity in the draft to guarantee consistency between ISAP3 and IAS19 recognising the existence of alternative views.
2.6.3	The detailed description of the assumption setting in this paragraph is more restrictive than the requirements of IAS19. The draft ISAP would limit the interpretation of actuaries compared to the directors of the principal in setting a discount rate. The section is detailed and while the explicit advice in 2.6.3 (a) and 2.6.3 (b) may be appropriate in many circumstances, it should be balanced against a more simplified approach that is also appropriate in many circumstances. The section could reference section 2.9 explicitly in regard to proportionality. A more balanced wording could be included in the introduction, such as "Unless the actuary has determined that a simplified approach is appropriate or proportional, the actuary should.."	The detailed content concerning the derivation of the discount rate exemplifies current actuarial practice, which is at a good standard and appropriate in many situations. This type of content is more educational in nature and would likely be of more benefit to actuaries across the world should it be included in an educational note. This would also allow for an easier updating process by the IAA should actuarial practice develop.
2.6.4	This paragraph requires a market implied inflation rate. This would not be consistent with 2.6 which implies the use of a best estimate rather than a market consistent inflation assumption. IAA may consider that further educational material would be helpful for this material	

	assumption in determining IAS19 results.	
2.6.7	As noted in the general comments, there is the possibility of a conflict of interest where the trustees' adviser produces the calculations and is only contracted for this purpose, but the advice on assumptions is provided by the sponsor's actuarial adviser.	
2.7.4	This paragraph (relating to schemes in surplus) refers to IFRIC 14, however, IFRIC 14 also applies to schemes which are not currently in surplus, but which are projected to develop a surplus in future. It may be more helpful if there were an additional paragraph in 2.7 that introduces a direct and separate reference to IFRIC 14, otherwise it could be misleading for users.	