Institute and Faculty of Actuaries

Dave Pelletier
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Dear Dave

IFoA comments on the final review of ISAP 3 in relation to IAS19 Employee Benefits

1. The Institute and Faculty of Actuaries (IFoA) recognises the IAA's need to produce model standards that are reflective of the needs of all full member associations (FMAs). However, in line with our response to the previous exposure draft, we have a number of remaining concerns with the proposed final ISAP 3.
    i. The IFoA considers that the general approach for standards should set out high level principles rather than detailed rules. While this is difficult to achieve where the subject matter is itself a prescriptive standard, we are concerned that ISAP 3 is unduly detailed.
    ii. The standard paraphrases IAS 19 in certain places which leaves us unclear of the purpose of the paraphrasing. This might have unintended consequences:
        a. Duplication of the regulatory / compliance burden on those required to familiarise themselves with both standards.
        b. Similarity of content between the standards could create ambiguity, giving rise to confusion amongst actuaries.
        c. This ambiguity could subsequently also give rise to unnecessary confusion amongst the other parties involved.
    iii. Where ISAP 3 is not fully aligned with IAS 19, there is also scope for potential difficulties. Specifically, where the standard is more restrictive than IAS 19 it could cause difficulties for actuaries as reporting entities will not be bound by the ISAP. It may not be practical for an actuary to follow an ISAP where others within the process are not bound by the same requirements.
    iv. Much of the text – in particular the description of different ways that an actuary might derive the discount rate - would appear to fit better within an educational note, rather than an ISAP. It seems to us that a disproportionate part of the proposed ISAP addresses the discount rate compared to the attention given to other assumptions.

2. We have concerns as to the implications of section 2.6 of ISAP 3 (as it interacts with section 2.8 of ISAP 1) for the UK statutory trustee actuary role. The UK is unusual in having a regulatory regime for pension schemes that creates an inherent conflict of interest between advising sponsors and retirement plan trustees. There are, therefore, important regulatory restrictions on the "advice" that actuaries who advise trustees can provide to the sponsor. This means that the role of actuaries who advise trustees can be restricted to performing, where appropriate, a limited calculation role for the sponsor , on assumptions prescribed by the sponsor, insofar as this does not involve material actuarial judgement or analysis. This

limited role can nonetheless serve an important practical purpose from a user perspective; not least given that these actuaries have ready access to the member data and valuation output. As you will appreciate, we would wish to consider carefully the implications of section 2.6 for the undertaking of this limited role prior to any decision to support the application of ISAP 3 to IFoA members.

Drafting comments

3. We suggest that the introductory sentence for section 2.6.1(b)(I), which refers only to “market-implied expectations”, is too narrow and does not cover the subsequent items, including market implied information, survey data and historic data. We note that IAS 19 refers to use of “best estimate” assumptions rather than specifically “market consistent” assumptions and we suggest that ISAP 3 should mirror the terminology of IAS 19.

4. The IFoA would encourage clarity between the approaches in sub-sections a) and b) of section 2.6.3. Use of the full yield curve and the equivalent single rate would by definition give the same Defined Benefit Obligation (DBO). Therefore, sub-section a) might be read as implying that the interest cost can be calculated using the 1 year forward rate - it is difficult to see any other difference between using a) and b). However, our understanding is that UK auditors would generally resist a reporting entity calculating the interest cost using the 1 year forward rate. If there is no intention to suggest this, it would be helpful for the wording to clarify the distinction between approaches a) and b).

5. In relation to the final paragraph of 2.6.3, we would encourage the IAA to check that *all* auditors would be comfortable with an entity proposing to use a different rate for determining service cost.

6. Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, IFoA Policy Manager (philip.doggart@actuaries.org.uk / 07771814329).

Yours sincerely

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