



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

September 26, 2008

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

Dear Sir

Re: IAA comments on the IASB Discussion Paper on Preliminary Views on Amendments to IAS 19 Employee Benefits

In response to the request for comments on the March 2008 Discussion Paper on Preliminary Views on Amendments to IAS 19 Employee Benefits, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

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:](#) IAA comments

**A Commentary on the
DISCUSSION PAPER: PRELIMINARY VIEWS ON AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS
ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD: MARCH 2008**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty Full Member actuarial associations represent more than 95% of all actuaries practising 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 consultation.

Due Process

These comments have been prepared by the Accounting Subcommittee of the Pensions and Employee Benefits Committee of the IAA, the members of which 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 and General Remarks

We thank the Board for the opportunity to comment on the proposals presented in this paper on matters which the Board consider fall to be addressed prior to the fundamental review planned for 2011. We would be pleased to meet with the Board to expand on our written comments, in particular with regard to alternative approaches to accounting for hybrid arrangements where we believe that our unique understanding of so many countries’ plan design and practices can be of value to the Board in forming a practical alternative to the proposals on ‘contribution-based promises’.

Our summary comments are as follows:

Deferred Recognition of gains and losses

We support that where obligations are accounted for on a mark to market basis, gains and losses should be recognised in the balance sheet in the period in which they occur.

Pensions share some similarities to insurance contracts but are not the same as insurance contracts, and should be accounted for as a form of corporate debt accordingly. However, the accounting for pensions is relatively unique in that other similar corporate liabilities are not required to be recognised on a mark to market basis today. We do not support an even stricter regime being introduced for pensions in isolation of the outcome of review of the conceptual framework, fair value and insurance projects and of IAS1. This applies to all forms of pension promise, including so called “contribution-based promises”.

Presentation of pension promises

We agree that presentation of pension promises should not be amended prior to the outcome of the review of IAS 1 which governs financial statements as a whole. The presentation of pension promises can then be determined consistent with a reviewed IAS 1.

We support that the P&L should reflect the financing cost of pension promises, and this means inclusion not only of the (expected) interest cost but also the expected asset return (explicitly for funded pension arrangements and implicitly for unfunded arrangements through the impact on the net balance sheet (assets less debt) of the sponsor).

If the Board does not continue with the current derivation of the expected asset return, we support the use of the return on the plan assets at the discount rate used to compute the liabilities. Setting the expected asset return equal to the discount rate presents an unbiased measure and gives rise to consistent presentation for the limiting case of a DB plan whose liabilities have been fully matched by bonds with a yield equal to that discount rate.

Accounting for “contribution-based promises”

In our view, the definition of a “contribution based promise” as proposed is a rules based approach. We favour a principles based approach recognising the nature of the (economic) risk to the employer in providing the benefit. We support that this should be the starting point of the fundamental review from 2011 and the IAA would be pleased to assist the IASB on this.

We do not see, and therefore do not support, the need nor rationale to create a wholly different framework for the accounting of a particular type of hybrid arrangement. The concept of “contribution-based” promises seems to us artificial. We fail to see how it can aid the understanding of users of financial statements.

In practical terms, the Board’s proposal seems to us to create more problems than it resolves. We do not see the proposals as an improvement over the current issues with IAS 19.

It may aid the user of accounts to apply a combination of DB and DC accounting presentations to hybrid plans, and we would support this where it is pragmatic for preparers of accounts to do so. We would be pleased to assist the IASB on this.

Responses to Questions

Chapter 1 Scope of the Project

Question 1: Given the objective of the IASB project to address specific issues in a limited time frame, are there additional issues which you think should be addressed by the Board as part of this project? If so, why do you regard these issues as a matter of priority?

No, there are no further issues we believe should be addressed by the Board at this time.

Indeed, as explained below, we believe that the scope of this project should not extend to addressing fundamentals of:

- a) a new accounting approach for hybrid arrangements, or
- b) a revised presentation of pension promises in financial statements

until work on the conceptual framework, the fair value and insurance projects, and on IAS 1 have sufficiently progressed such that a consistent approach can be applied to the accounting of different forms of company liabilities.

Pensions have some similarities to insurance contracts but the commitment from the employer in providing a pension is not the same, is based on a different obligation in law, and employee communications about the nature of the promise are different. Pension promises should not therefore, in our view, be accounted for in the same way as insurance contracts but as a form of corporate liability. Unlike most other forms of corporate liabilities, pension promises are already accounted for on a mark to market basis (though not necessarily measured on a fair value basis) and with extensive accompanying disclosures. This inconsistent presentation of different corporate liabilities gives the false impression that pension obligations are somehow more volatile or costly to shareholders than other forms of corporate liabilities. This in turn skews management decisions and has led, in developed pensions markets in particular, to the closure of pension arrangements to the detriment of members of those arrangements.

Chapter 2 Recognition and presentation of defined benefit promises

Question 2: Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

Although inconsistent with the treatment of other forms of corporate liabilities, we nonetheless support that where obligations are accounted for on a mark to market basis gains and losses should be recognised in the balance sheet (not through P&L (see Question 3)) in the period in which they occur.

We do not support that the case has been made however for dispensing with the concept of an expected return on assets. We support that the P&L should reflect the (expected) interest on the liabilities arising from the unwinding of the discount rate (time value of money) on reserves established in the period for pension cashflows payable in the future. We further support that the financial statements should then recognise the economic reality that the (expected) interest on liabilities is offset by an (expected) return on the assets held to meet those liabilities (explicitly for funded pension arrangements and implicitly for unfunded arrangements through the impact on the net balance sheet (assets less debt) on the sponsor). So if interest cost is recognised through P&L (as we support it should) the expected return on assets should also be met through P&L – both are financing items. The difference between the expected and actual return on assets is then the same experience versus measurement issue that governs recognition of all gains and losses – i.e., we do not view the asset return inherently differently to other assumptions in this regard.

It is a matter of judgment not theory what the expected return on the assets should be. Seeking to build a methodology based on a theoretical measure of just the income element of an investment portfolio (chapter 3) simply doesn't reflect the diverse investment objectives of the holders of the assets – a total return (income and capital growth) measure reflects the economic reality.

If the Board rejects the use of the expected return on plan assets as defined in IAS 19 then, instead, we would support setting the expected return on plan assets to be that computed using the discount rate used in measuring the plan liabilities. This presents an unbiased measure. Further, it ensures a theoretically sound answer for the limiting case of a pension arrangement that has assets that perfectly match the nature and timing of the liability cashflows : the time value of money effect on the assets exactly offsets the time value of money effect on the liabilities.

[A pragmatic alternative would be the continuation of the current derivation of the expected asset return coupled with clear disclosure of the supporting rationale. We acknowledge, and agree with, the argument that the expected asset returns have generally been set too high in the past. However, we believe this argument may be overdone when looking at prospective accounting periods : regulators, auditors and analysts now monitor this assumption closely. Assumptions drawn for entries in financial statements must meet certain realistic and reasonable tests and the user of the accounts can and does take a view whether she believes the directors of the company and the auditor are being over or under optimistic in setting that assumption. This applies equally to (long term) future returns given the disclosed investment strategy for the plan assets.]

The question as to whether unvested past service costs should be recognised in the period of the plan amendment that gave rise to those costs is complex, even if the amounts involved should generally be small. There are views for and against, and we believe such a question goes to the heart of the conceptual framework – it cannot be resolved at a detail level. We advocate that this matter is deferred to the fundamental review the Board is proposing for 2011.

Chapter 3 Presentation approaches for defined benefit promises

- Question 3:
- a) Which approach to the presentation of changes in defined benefit costs presents the most useful information to the users of financial statements? Why?
 - b) In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:
 - i. Presentation of some components of defined benefit cost in other comprehensive income ; and
 - ii. Disaggregation of information about fair value?
 - c) What would be the difficulties in applying each of the presentation approaches?

As noted in Question 1 above, we support making no changes to the presentation of pension promises in financial statements until the fundamental review of IAS 1 has sufficiently progressed to inform which of the different approaches (status quo plus the three approaches noted in the paper, or another presentational format not covered in the paper) should govern the presentation of financial statements as a whole and therefore how pension promises should be recorded within such a presentation.

Our detail comments on the three approaches considered in the paper are noted below for completeness.

- Approach 1 provides that pensions must be treated in a way not applicable to similar corporate liabilities (which are generally not measured on a mark to market basis so questions as to presentation of gains and losses over the period do not arise). No justification has been presented for singling out pensions in this way.
- Approach 2 would also result in pensions being treated different to similar corporate liabilities. In particular, we do not understand the rationale for financing items to be recognised outside P&L.

We understand that accountants conceptually separate out the discount rate from the other assumptions because accountants take the view that the other assumptions are used in the projection of the cashflows, and the discount rate then net present values those cashflows to the balance sheet date. We assume that this is the basis for including in P&L under Approach 2 only changes in service costs caused by changes to assumptions other than the discount rate (with the change in discount rate on service costs going into comprehensive income). However, we note that this may give rise to misleading presentation of the underlying economics of pension promises where other assumptions are correlated to the discount rate e.g. where the pension promise is indexed by inflation (UK, Germany, South Africa, and many other countries), the inflation assumption is determined by looking at the difference between absolute and real discount rates.

- Approach 3 better represents the underlying economics of a pension promise in our view, provided an expected asset return equal to the discount rate is recognised in P&L to reflect interest income (see Question 2).

- Question 4:
- a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?
 - b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

Assuming gains and losses are recognised in full in the period in which they occur, we believe that the current presentation of pension promises in financial statements adequately reflects the underlying economics of such promises. A review of the presentation of pension promises in financial statements should await the outcome of the fundamental review of IAS 1.

Chapters 4 and 5 Definition of contribution-based promises

- Question 5: Do you agree that the Board has identified the appropriate promises to be addressed in the scope of this project? If not, which promises should be included or excluded from the scope of the project, and why?

We believe the scope of the promises covered by the definition is too broad. We address this below in terms of the principles and through examples in question 6.

We have strong reservations over the validity and consequences of the Board's proposal to create a separate and distinct approach to the accounting of a particular class of hybrid arrangements (the 'contribution-based promises' as defined in the discussion paper).

In our view, the difference in the accounting approaches for Defined Benefits and Defined Contribution promises arises from the fundamental difference between such arrangements:

- DC promises: in return for services rendered to the employer, the employer is obliged to make a cash contribution into an investment account on behalf of the employee. On payment of that cash sum, the company bears no further risk (gain or loss) relating to the service period that the cash sum covers
- DB promises (meaning all promises that are not DC); in return for services rendered to the employer, the employer promises to pay a benefit to the employee in a future time period (e.g. during retirement). A reserve is established for that benefit based on certain assumptions made and the employer bears the risk that the reserve held may prove to be more or less than the amount required at the time the benefit is payable. The employer may choose to fund that promise into a trust or similar vehicle for reasons of law or prudence, however such payments do not change that the economic risk of under or over provisioning/funding falls on the employer.

In this regard, the limiting case of a DB promise (when the last instalment of the benefit promised to the now retired employee is actually paid) is a DC promise.

Hybrid arrangements, of which there are many forms in practice, can be viewed as comprising DB and DC type elements. We have a fundamental difference with the Board in that we consider that on economic grounds "contribution-based" promises are a sub-class of hybrid arrangements, not that DC arrangements are a sub-class of "contribution-based" promises. We believe that the appropriate way to account for all hybrid arrangements is a combination of the accounting approaches for DB and DC promises, judgement being applied given the nature of the particular promise. Given the IAA's unique experience of pension promises globally, we would be pleased to discuss practical options how to do this with the Board – we make some preliminary suggestions in our response to Question 15 below.

We do not see, and therefore do not support, the need nor the rationale to create a wholly different framework for the accounting of a particular type of hybrid arrangement. The concept of 'contribution-based' promises seems to us artificial. We fail to see how it can aid the understanding of users of financial statements.

In practical terms, the Board's proposal also seems to us to create more problems than it resolves

- Where potential inconsistencies occur today on the boundary between the definition of DB and DC plans, adopting a different framework that draws the line instead between DB and CB (contribution based) plans does not remove the scope for inconsistencies. Instead, it just gives rise to different inconsistencies and in our view they are more complex and problematic than those that arise today with the current IAS 19.
- A different accounting framework gives rise to non-sensical situations where two benefits which are economically the same (or almost the same) can give rise to fundamentally different presentations in the financial statements, e.g. a deferred benefit in a final salary plan (accounted for as DB) and an accrued career average benefit in a career average plan (accounted for as a 'contribution-based promise'). Both are DB promises in our view and correctly fall to be accounted as such under IAS 19.

If the Board has concerns over the appropriate measurement of DB promises this should be addressed as part of the fundamental review planned for 2011. It is not appropriate, and certainly not an improvement to the current deficiencies of IAS 19, to introduce a different approach now and thereby pre-empt the more fundamental review in the process.

Question 6: Would many promises be reclassified from defined benefits to contribution-based under the Board's proposals? What are the practical difficulties, if any, facing entities affected by these proposals?

The number of hybrid pension promises in existence globally is difficult to define, other than to say that a) the trend is to growing numbers of such plans, and b) even plans which appear on the face of it to be pure DB often have some DC or 'best of' elements.

Common examples of b) include a final salary plan which

- provides the return of contributions with interest in certain circumstances.
- includes a facility for members to make voluntary contributions in a DC form under the plan (and possibly further give the member the option to purchase a DB pension under the plan at the point of retirement)

Actuaries and plan sponsors would not advocate adopting fundamentally different accounting approach for such plans as the hybrid elements thereof are typically not material compared to the DB element – a view shared by the Board in paragraph 10.6 of the discussion paper. These trivial examples support our view that the theoretical accounting approach put forward by the Board for CB plans is misplaced – simply, an approach that combines the DB and DC approaches within the materiality limits set for the overall financial statements is the correct, pragmatic and understandable to users of financial statements way forward.

More significant examples of obligations that would potentially be reclassified (artificially in our view) under the Board's proposals include

- About 20% of Fortune 500 US companies operate cash balance plans
- Career average (or revalued career average) plans have been in force in the Netherlands for many years and traditional DB plans are increasingly incorporating a cap on the salary that is pensionable (such that the plan appears more like a fixed or revalued accrual plan for high earners)
- About 70% of German promises are currently accounted for under IAS 19 as defined benefits, and 30% as defined contributions. Of those accounted for as defined benefits, about 60% (i.e. 60% of 70% or c 40% of all promises) would fall under the proposed definition of 'contribution based promise'.
- Belgian and Swiss law require DC plans to incorporate an investment return guarantee over the period to the date of retirement. The guarantee would be met by the investment provider or insurer operating the plan, not the sponsoring employer, but would the Board propose that the guarantee is recorded in the employer's financial statements nonetheless?
- In the UK, nearly 10% of companies have adopted cash balance or similar 'contribution based promises'. There is also discussion to promote more shared risk plans some of which could fall within the 'contribution-based promise' definition.

Question 7: Do these proposals achieve that goal, if not why not?

We do not support that the Board's proposal represents an improvement on the current accounting treatment of hybrid plans. The proposal is based on arbitrary (and hence inconsistent) distinctions, adds complexity, and would be difficult for users of financial statements to understand. Nor is it clear that it would result in higher liabilities being recorded but would add to employer's costs in preparing financial statements in an unnecessary way.

We would be pleased to discuss a pragmatic way forward for accounting for hybrid promises based on combining the existing accounting approaches for DB and DC promises.

Chapter 6 Recognition issues related to contribution-based promises

Question 8: Do you have any comments on those preliminary views? If so, what are they?

The proposition that hybrid benefits that fall under the definition of 'contribution-based promises' should be allocated in a similar way to DC plans, i.e. no departure permitted from the benefit formula even where the benefit is back loaded (which includes plans where the benefit or contribution is linked to salary) will give rise to different presentations in financial statements of benefit promises that are economically identical (or almost identical). The logic presented is inherently circular – if one starts with the premise that hybrid plans that meet the proposed definition of a 'contribution based promise' should be accounted for in a similar way to a DC plan, then one will conclude that attribution should follow DC principles.

Chapter 7 Measurement of contribution-based promises – core issues

Question 9:

- a) Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describes the approaches and explain how they better meet the measurement objectives?
- b) To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

- a) The proposed measurement criteria are complex and we believe this derives from the arbitrary nature of the premise that 'contribution-based promises' should be accounted for differently to DB and DC promises. In particular, the proposal that measurement should be on an expected value basis risks spurious accuracy as it would need to be computed on a member by member (not per plan) basis and the individual behaviour of plan members will depend on the assumed scenarios that are modelled. We do not believe that users of financial statements will gain meaningful insights from the adoption of such complex calculations: indeed, it is difficult to see how users of accounts could form a view of the sensitivity of the analysis without lengthy disclosures of the working of the stochastic model itself (see Question 14). This reinforces our view that the theoretical approach advocated in the discussion paper is misplaced.
- b) A different approach to the measurement of the risk of the 'contribution-based promise' being paid in part or in full should not be addressed prior to addressing the broader question of measurement of risk as part of the fundamental review in 2011. The proposal is highly complex and would involve different measurements being placed on tranches of liabilities that are projected to be covered by the projected value of assets backing the plan, and those that rely on the employer's covenant (i.e. are unfunded at the point the benefit is paid, and which would not be covered by State insurance models in some countries if the employer was unable to meet its obligations). The case has not been made in the discussion paper for a different treatment of risk in 'contribution-based promises' compared to other forms of corporate liabilities.

Chapter 8 : Measurement of benefits after the accumulation phase

Question 10:

- a) Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why not?
- b) What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?

- a) We support that the measurement approach should not change between the accumulation, deferment and payout phases. Once the member moves from one phase to another, how the benefit arose in the earlier phase is no longer relevant.

We would stress that this objective is not necessarily the same as identical benefits should be measured identically irrespective of how they originally accumulated.

- b) A key difficulty is that where the benefit takes the form of an annuity in retirement, there are few deep annuity markets to reliably measure fair value against

Chapter 9 : Disaggregation, presentation and disclosure of contribution-based promises

- Question 11:
- a) What level of disaggregation of information about changes in the liability for contribution-based promises is useful to the users of financial statements? Why?
 - b) Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

No additional disclosures are needed for DC plans (notwithstanding that the Board contend that DC plans are a subset of 'contribution-based promises'). For 'contribution-based promises' that are not pure DC plans, it makes sense to continue to provide information to users of financial statements because, unlike pure DC plans, there is an economic risk on the sponsor of such plans. However, this serves to highlight the arbitrary nature of 'contribution-based promises'. Plans that include DB elements fall to be accounted for as DB plans in our opinion.

- Question 12:
- Should changes in the liability of contribution-based promises:
 - a) be presented in profit and loss, along with all changes in the value of any plan assets ; or
 - b) mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)
- Why?

See Question 11 above.

Chapter 10 Benefits with a 'higher of' option

- Question 13:
- a) What are the practical difficulties, if any, in identifying and measuring the 'higher of' option than an entity recognises separately from a host defined benefit promise?
 - b) Do you have any other comments on the proposals for benefit promises with the 'higher of' option? If so, what are they?

Notwithstanding continuing work on accounting for financial options and the implications of Solvency II for the measurement of options in insurance contracts, it remains that the fair value of an option can be highly sensitive to the particular methodology adopted.

The methodology outlined in the discussion paper would involve highly complex and costly calculations operated on a member by member basis. This is because parts of the benefit payable to an individual may be subject to different levels of credit risk, the risk itself will only be subjectively determinable and,

finally, because all of the information required to classify a promise accurately may not be readily available. It is difficult to see whether the user of financial statements would obtain additional insight from an examination of an approach based on stochastic models and projection assumptions on an individual-by-individual basis. The company directors, actuary and auditor should be left to make their own value judgements on the appropriate value to place on ‘higher of’ promises. Indeed, in its proposals, the Board is not seeking to prescribe a methodology to address the measurement of ‘higher of’ defined benefit promises – which may be more significant than ‘higher of’ contribution based promises – such that again this seems an unnecessarily spurious approach which at best pre-empts the more fundamental debate needed on measurement that is to be addressed as part of the 2011 project. It is also unclear if the Board is proposing sensitivity analysis (see Question 14) around the analysis of ‘higher of’ promises of a contribution-based nature.

Further, implicit in the discussion paper is the assumption that when assessing the fair value of an option in a contribution-based promise, the DB or DC benefit with which that option combines is already measured on a consistent basis. If all the elements are not measured on a consistent basis, the measurement of the option itself could be misleading.

Other matters that fall as part of the 2011 review

Question 14: What disclosures should the Board consider as part of that review?

Disclosures should

- be kept simple and relevant
- be proportionate i.e. judgement made by the company directors and the auditor as to what is material in the context of the overall accounts

And just as financial statements should be based on a conceptual framework that is consistently applied across the different liabilities of a company, so disclosure standards need to be set and applied consistently across the different operations of the company.

Because pensions are currently the only company liability that is required to be reported on a mark to market basis, with recognition of gains and losses in the period in which they arise, it is not surprising that there are significant pension disclosures to accompany this accounting treatment.

In our response to the UK Accounting Standard’s Board, we made the following detailed comments regarding its proposals on disclosures:

- *It would be inconsistent with other accounting topics to require disclosure of more than one measure of pension liabilities.*
- *Equally, it would be inconsistent to require disclosure of the key elements of the contract between the entity and the trustees/managers but not disclosure of key commercial contracts.*
- *Certain disclosures would also be impractical for a group with multiple*

plans across different countries. It would simply weigh down the disclosures by pages and pages of small print that would simply be repeated unchanged from year to year and largely (if not wholly) reflect the operation of local law. Equally, disclosure of funding agreements would be impractical (within any reasonable length of financial statements) for a group with multiple plans across different countries.

- *There is no requirement to disclose expected (liability) cashflows for other long term assets and liabilities, so it is unduly onerous to require disclosure of a pension plan's total expected cashflows for all future years unless this is viewed as an alternative to sensitivity analysis already recorded in the accounts (given the plan cashflows the user of the accounts can perform her own valuations and sensitivities).*
- *The requirement to disclose risk exposures and on management activity should be required – where material – in all accounting topics rather than setting out requirements only for pensions.*
- *Requiring disclosure of aggregate contributions to the group's pension plans over the next year or two is sensible where the amounts in question are known and committed by the sponsor. Beyond this period, actual employer contributions are typically uncertain.*

Question 15 Do you have any other comments on this Paper? If so, what are they?

In relation to the illustrative promises set out in Appendix A, we believe that these represent DB type risks to the employer with the exception of promise 3. We would propose that the promises shown are accounted for according to the following principles:

- Promises that are notional DC type plans (i.e. although the benefit design looks like DC, the employer bears the financing risk) would be accounted for as DB plans but not with the Projected Unit Method but rather with a two-pronged method analogous to that already contained in IAS 19.104 and similar to that discussed in the next point below
 - This applies whether the benefit is paid in lump sum or annuity form
- For promises that would otherwise be true DC plans (i.e. the employer bears no financing risk) but that the employer provides a guaranteed return (i.e. the return is 'higher of' the actual return and the guaranteed return), a combined DB/DC approach should apply
 - Service cost is equal to the actual contributions paid [the DC element] plus the option value of the guaranteed return to the employer [the DB element]
 - The balance sheet records any deficit in the actual assets against the guaranteed amount plus the option value of the guaranteed return to the employer
 - Gains or losses over the period to the extent that they increase or write down the balance sheet deficit are met through P&L
 - A disclosure is made of the nature of the guarantee
 - Note the DB element for such a promise would be nil if the guarantee is legally being met by the fund manager/insurer

Appendix A would then be addressed as follows:-

Promises	Current IAS 19 treatment	Proposed IASB treatment	Proposed IAA treatment	Comments
3	DC	CB	DC	Pure DC example
1,2	Unclear	CB	DB	Although there are actual funding contributions, the description reads that the financing risk lies with the employer. (NB the plans could be legally and economically converted to true DC by allocating actual contributions to individual accounts with a passive investment mandate)
4-7	DB	CB	DB	The promises are constructed as DB promises, contributions are notional.
8, 9,11	DB	DB	DB	Agree these fall to be accounted as DB promises
10	DB	CB	DB	The promise is constructed as DB. (NB this is an unlikely plan design where neither the employer nor the member seems to gain from investment returns on the contributions paid)
13, 14	DB	CB	DB	Examples of fixed pension benefits
12	Unclear	CB	DB	The plan is DC in the accumulation phase, but DB in nature in payment. The reserve for actives should be equal to the projected gain/loss on projected benefits given whether the fixed conversion terms are in or out of the money at the balance sheet date. The reserve for pensions in payment is a clear DB obligation.

Appendix A

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
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
John P Parks	American Academy of Actuaries
G. L.N. Sarma	Institute of Actuaries of India
Anne Grete Steinkjer	Den Norske Aktuarforening

Members of the IAA Pensions & Employee Benefits Committee

Esko Kivisaari	Chairperson
Yoshihiro Oyama	Vice-Chairperson
Ronald Stewart Bowie	Faculty of Actuaries
Luca Coppini	Istituto Italiano degli Attuari
Philippe Demol	Association Royale des Actuaire Belges
Yasuyuki Fujii	Japanese Society of Certified Pension Actuaries
Alfred E. Gohdes	Deutsche Aktuarvereinigung e. V. (DAV)
Gary Ryan Hibbard	Institute of Actuaries
Bozenna Hinton	Institute of Actuaries of Australia
Curtis E. Huntington	American Society of Pension Professionals & Actuaries
Martin Janecek	Ceská Společnost Aktuárů
James Richard Kehoe	Society of Actuaries in Ireland
Sylvestre Konin	Institut des Actuaire de Côte d'Ivoire
Martin Kosztolanyi	Slovenska Spoločnosť Aktuarov
Åsa Larson	Svenska Aktuarieföreningen
José Roberto Montello	Instituto Brasileiro de Atuária (IBA)
José Muriel Del Sordo	Colegio Nacional de Actuarios A.C.
Ieva Ose	Latvijas Aktuaru Asociācija
John P Parks	American Academy of Actuaries
Neil A Parmenter	Society of Actuaries
Hannu Parviainen	Suomen Aktuaariyhdistys
Manuel Peraita Huerta	Instituto de Actuarios Españoles
Eduard Ponds	Het Actuarieel Genootschap
Gediminas Rackauskas	Lietuvos aktuariju draugija
Ksenija Sanjkovic	Hrvatsko Aktuarsko Društvo
K.P. Sarma	Institute of Actuaries of India
David Serr	Israel Association of Actuaries
Colin Leslie Southey	Actuarial Society of South Africa
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