IASB Preliminary Views on Amendments to IAS 19, Employee Benefits
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Disclaimer: The comments and views are in respect of the Discussion Paper "IASB Preliminary Views on Amendments to IAS 19, Employee Benefits". The attached comments and views are my personal views; these views and comments should not be attributed to my employer. My comments and views are based on my accounting experience related to Canadian employee benefit plans only.

Personal background: I am a consulting actuary with over 30 years of consulting and actuarial experience. I am currently a principal and consulting actuary with Towers Perrin in Calgary, Canada.

Scope of comments: I will limit my comments to certain questions in the Discussion Paper. The lack of commentary on other questions means that I generally concur with the IASB views in the Discussion Paper, or have no significant contribution for that specific question.

Responses:

Question 1 –

a) Increasing number of Canadian plans have significant actuarial liabilities in respect of inactive lives, that is, retirees, terminated vested and beneficiaries. Also, Consideration should be given to disclosing mortality tables and mortality improvements in the disclosure.
b) Canadian plans either provide adhoc, or automatic increases in pension payments. For complete disclosure, the indexing assumption should also be included in the disclosure.

Question 3 – Each of the three approaches have merit; however, in my opinion, Approach 1 is the most transparent and simple approach. This simple approach removes the potential need for complex rules on allocation between the profit and loss, and comprehensive income. For consistency and simplicity, the actual return on assets (instead of expected return on assets, or corporate yield bind, etc) is more appropriate to use in Approach 1 to determine the Expense under the profit and loss statement.

Question 5 – My own view is that the IASB's definitions of "contribution-based promises" and "defined benefit promises" have gone a long way in capturing promises that were inappropriately valued and accounted for. As an example, career average plans are better categorized in the "contribution-based" promises" category (Promise 7 in the Discussion Paper) as these benefits are known at the reporting date (as compared to final average defined benefit plans); the current practice of incorporating projected salary increases and prorating using the projected unit credit method is flawed and inappropriate for career average plans under CICA 3461.

Question 6 – There would be some changes in classification; however, in my opinion, these classifications will provide for better classification (refer to my example in Question 5)

Question 7 – Historically, actuaries and accountants have paid very little emphasis on accounting for “pure” defined contribution (DC) plans, for example, consider a DC plan with a contribution (a percentage of earnings), which is accumulated with investment return until retirement. The prevalent view is that once an employer contributes towards an employee DC account, then the employee is entitled to the “surplus”, or responsible for the “shortfall”. Unfortunately, there is generally a lack of documentation and understanding regarding the contributory promise. The reality is that DC plans carry material risks for employers, and these risks should be quantified and reflected on the balance sheet. Employers who do not have clear documentation limiting their liability, or promise to employees , then such employers should be required to quantify the potential liability (refer to my presentation on Defined Contribution Risks – Canadian Institute of Actuaries Annual Meeting PD-10, June 2007 Vancouver). This is analogous to IFRIC-14 requirements for limiting defining benefit asset if employers have no entitlement, or shared entitlement to the surplus. Employers with DC plan should include a liability if there is little, or no certainty that the employer’s risk is limited.

Question 8 – refer to my response to Questions 5 and 7.

Question 9 – in my view, stochastic approaches to valuing contribution-based promises for certain defined benefit plans is progressive and timely. Stochastic approaches provide a more thoughtful and quantifiable understanding of the risks in contribution-based promises. Quantification of DC risks in the paper referred to in my response in Question 7) is best done on a stochastic basis. The argument that stochastic models are complex and costly is not valid; with current technology and modeling expertise, these models are very common place.

Question 10 – There are a numerous valid approaches to valuing benefits for the payout period and deferment phases; however, using the approach used in the accumulation phase, is simple and consistent.

Question 11 – If DC risk is quantified (as per response to Question 7), then it is apparent that such liability should be aggregated and included in the financial statements.