



# ISAP 3

## International Standard of Actuarial Practice 3 Actuarial Practice in Relation to IAS 19 Employee Benefits

**Note:** The hyperlinks in the ISAP are linked to the respective definitions in the Glossary. These links will work well if your default browser is Internet Explorer. The links may not work consistently for other browsers. Unless you know your default browser is Internet Explorer, we recommend opening the ISAP and Glossary in separate windows and cross-referencing them.

Adopted by the IAA Council

11 April 2015

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## Preface

**This International Standard of Actuarial Practice (ISAP) is a model for actuarial standard-setting bodies to consider.**

The International Actuarial Association ([IAA](#)) encourages relevant actuarial standard-setting bodies to maintain a standard or set of standards that is substantially consistent with this ISAP to the extent that the content of this ISAP is appropriate for [actuaries](#) in their jurisdiction. This can be achieved in many ways, including:

- Adopting this ISAP as a standard with only the modifications in the Drafting Notes;
- Customizing this ISAP by revising the text of the ISAP to the extent deemed appropriate by the standard-setting body while ensuring that the resulting standard or set of standards is substantially consistent with this ISAP;
- Endorsing this ISAP by declaring that this ISAP is appropriate for use in certain clearly defined circumstances;
- Modifying existing standards to obtain substantial consistency with this ISAP; or
- Confirming that existing standards are already substantially consistent with this ISAP.

A standard or set of standards that is promulgated by a standard-setting body is considered to be substantially consistent with this ISAP if:

- There are no material gaps in the standard(s) in respect of the principles set out in this ISAP; and
- The standard or set of standards does not contradict this ISAP.

If an actuarial standard-setting body wishes to adopt or endorse this ISAP, it is essential to ensure that existing standards are substantially consistent with [ISAP 1](#) as this ISAP relies upon [ISAP 1](#) in many respects. Likewise, any customization of this ISAP, or modification of existing standards to obtain substantial consistency with this ISAP, should recognize the important fact that this ISAP relies upon [ISAP 1](#) in many respects.

If this ISAP is translated for the purposes of adoption, the adopting body should select three verbs that embody the concepts of “must”, “should”, and “may”, as described in paragraph 1.6. Language of [ISAP 1](#), even if such verbs are not the literal translation of “must”, “should”, and “may”.

**This ISAP is binding upon an [actuary](#) only if so directed by the [actuary](#)'s standard-setting body or if the [actuary](#) states that some or all of the [work](#) has been performed in compliance with this ISAP (e.g., if the [actuary](#) is directed by the [principal](#) to comply with this ISAP).**

This ISAP was adopted by the [IAA](#) Council in April 2015.

*[Drafting Notes: when an actuarial standard-setting organization adopts this standard it should:*

1. *Replace “ISAP” throughout the document with the local standard name, if applicable;*
2. *Modify references to [ISAP 1](#) in paragraphs 1.3, 1.4, 2.1, 2.2.2, 2.3, 2.4, 2.5.3, 2.6, 2.6.3, 2.7.1, and 3.1 to point to the local standard(s) that are substantially consistent with [ISAP 1](#), rather than referring to [ISAP 1](#) directly, if appropriate;*
3. *Choose the appropriate phrase and date in paragraph 1.7;*
4. *Review this standard for, and resolve, any conflicts with the local [law](#) and code of professional conduct; and*

5. *Delete this preface (including these drafting notes) and the footnote associated with paragraph 1.7.]*

## Introduction

This International Standard of Actuarial Practice (ISAP) provides guidance to [actuaries](#) when performing [actuarial services](#) in connection with International Accounting Standard 19 ([IAS 19](#)) Employee Benefits.

The [reporting entity](#) is responsible for all the information reported in its IFRS financial statements, including information reported in accordance with [IAS 19](#). This means the [reporting entity](#) is responsible for the categorization of employee benefit plans, the choice of actuarial assumptions and methods used to measure employee benefit obligations, and disclosures about employee benefit plans. [IAS 19](#) encourages, but does not require, a [reporting entity](#) to involve a qualified [actuary](#) in the measurement of all material post-employment benefit obligations.

In practice, an [actuary](#) may advise on a range of issues arising from the application of [IAS 19](#), including the measurement of short-term, post-employment, termination, or other long-term [employee benefits](#) and disclosures in the IFRS financial statements.

This ISAP is intended to:

- Facilitate convergence in standards of actuarial practice in connection with [IAS 19](#) within and across jurisdictions;
- Increase [reporting entities](#)' and their auditors' confidence in [actuaries](#)' contributions to reporting of [employee benefits](#) in accordance with [IAS 19](#);
- Increase public confidence in [actuaries](#)' services for [IAS 19](#) purposes; and
- Demonstrate the [IAA](#)'s commitment to support the work of the International Accounting Standards Board (IASB) in achieving high-quality, transparent, and comparable financial reporting internationally, as envisaged by the Memorandum of Understanding between the [IAA](#) and the IASB.

## Section 1. General

- 1.1. Purpose** – This ISAP provides guidance to [actuaries](#) when performing [actuarial services](#) in connection with [IAS 19](#). Its purpose is to increase [intended users](#)' confidence that:
- [Actuarial services](#) are carried out professionally and with due care, consistently with [IAS 19](#), and taking into account the [reporting entity](#)'s [accounting policies](#);
  - The results are relevant to their needs, are presented clearly and understandably, and are complete; and
  - The assumptions and methodology (including, but not limited to, models and modelling techniques) used are disclosed appropriately in the [actuary](#)'s [report](#).
- 1.2. Scope** – This ISAP provides guidance to [actuaries](#) when providing [actuarial services](#) for a [reporting entity](#)'s preparation of an actual or pro-forma IFRS financial statement for any type of [employee benefit](#) the [reporting entity](#) determines to be covered by [IAS 19](#). [Actuaries](#) providing [actuarial services](#) in connection with [IAS 19](#) that are outside of this scope (for example, an [actuary](#) advising an auditor or advising a potential buyer regarding an acquisition) should consider the guidance in this ISAP to the extent relevant to the assignment.
- 1.3. Compliance** – [For this ISAP, this paragraph replaces paragraph 1.3. in [ISAP 1](#)] An [actuary](#) may fail to follow the guidance of this ISAP but still comply with it where the [actuary](#):
- 1.3.1. Complies with requirements of [law](#) that conflict with this ISAP;
  - 1.3.2. Complies with requirements of the actuarial code of professional conduct applicable to the [work](#) that conflict with this ISAP; or
  - 1.3.3. Departs from the guidance in this ISAP and provides, in any [report](#), an appropriate statement with respect to the nature, rationale, and effect of any such departure.
- 1.4. Relationship to ISAP 1** – Where possible, this ISAP does not repeat guidance already provided in [ISAP 1](#). Any [actuary](#) who asserts compliance with this ISAP (as a model standard) must also comply with [ISAP 1](#). References in [ISAP 1](#) to “this ISAP” should be interpreted as applying equally to this ISAP 3, where appropriate.
- 1.5. Defined Terms** – This ISAP uses various terms whose specific meanings are defined in the Glossary. These terms are highlighted in the text with a dashed underscore and in blue, which is a hyperlink to the definition (e.g., [actuary](#)). This ISAP also uses terms defined in [IAS 19](#), in which case they have the same meaning.
- 1.6. Cross References** – This ISAP refers to the content of [IAS 19](#), including any interpretations from the International Financial Reporting Interpretations Committee or the Standing Interpretations Committee thereon, as issued through September 2014. If [IAS 19](#) is subsequently amended, restated, revoked, or replaced after September 2014, the [actuary](#) should consider the guidance in this ISAP to the extent it remains relevant and appropriate.

- 1.7. Effective Date** – This ISAP is effective for { [actuarial services](#) performed/[actuarial services](#) commenced/[actuarial services](#) performed with respect to an IFRS financial statement for a reporting period ending }<sup>1</sup> on or after [Date].

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<sup>1</sup> *[Phrase to be selected and date to be inserted by standard-setter adopting or endorsing this ISAP.]*.

## Section 2. Appropriate Practices

**2.1. Knowledge of Accounting Requirements** –The [actuary](#) should have or obtain sufficient knowledge and understanding of [IAS 19](#), [IFRSs](#) that are interpretations of [IAS 19](#), relevant paragraphs of other [IFRSs](#) to which [IAS 19](#) specifically refers, and the [reporting entity](#)'s relevant [accounting policies](#), if any. If the [actuary](#):

- a. Is uncertain whether another [IFRS](#) is relevant to the [actuarial services](#); or
- b. Discovers that a specific component of the [actuarial services](#) may be subject to alternative interpretations of [IAS 19](#), an [IFRS](#) that is an interpretation of [IAS 19](#), a relevant paragraph of another [IFRS](#) to which [IAS 19](#) specifically refers, or relevant [accounting policies](#).

the [actuary](#) should seek guidance from the [principal](#), and treat the guidance as information to which [ISAP 1](#), paragraph 2.3. Reliance on Others, applies.

**2.2. Materiality** – The [actuary](#) should understand the distinction between materiality with respect to the [actuarial services](#), the preparation of IFRS financial statements, and the auditing of those financial statements.

2.2.1. When appropriate for the [work](#), the [actuary](#) should seek guidance from the [principal](#) or [reporting entity](#) regarding materiality with respect to the preparation of IFRS financial statements and take that guidance into account when performing the [actuarial services](#).

2.2.2. In applying [ISAP 1](#) paragraph 2.4. Materiality, the [actuary](#)'s threshold of materiality with respect to the [actuarial services](#) should not be greater than the [reporting entity](#)'s threshold of materiality with respect to the preparation of IFRS financial statements, if it is known. The [principal](#) or [reporting entity](#) (not the user of the IFRS financial statements) is the [intended user](#) of the [actuarial services](#) when assessing materiality with respect to the [actuarial services](#).

2.2.3. In all following paragraphs of this ISAP, any use of “material”, “materially”, or “materiality” is with respect to the [actuarial services](#).

**2.3. Proportionality** – In applying [ISAP 1](#) paragraph 1.5. Reasonable judgment, and in particular paragraph 1.5.2., the [actuary](#) should take materiality into account. The degree of refinement in specific assumptions or methods recommended by the [actuary](#) should be consistent with the impact on the [actuarial services](#). Examples include, all of which are subject to the [actuary](#)'s [professional judgment](#):

- a. The [actuary](#) may use simplified approaches to recommending assumptions when those assumptions will not materially affect the results or are proportionate for the [actuarial services](#). For example, when a pension plan pays primarily lump sum benefits at termination or retirement, the choice of mortality assumption may have little impact on the liabilities. As a second example, for certain work-related accident or injury benefits, the projected benefit cash flows may be so uncertain as to make a highly refined approach to selecting the discount rate disproportionate.
- b. In lieu of collecting new employee census data at the [measurement date](#), the [actuary](#) may appropriately adjust results using data collected at a different date when doing so will not materially affect the results.
- c. The [actuary](#) may apply or amend assumptions selected for other purposes (such as to determine funding of the employee benefit plan) or demographic assumptions used at a



prior [measurement date](#) when those assumptions are reasonable for [IAS 19](#) purposes at the current [measurement date](#).

- d. The [actuary](#) may apply simplified methods to attribute benefits to periods of service when doing so will not materially affect the results.

**2.4. Constructive Obligations** – The [actuary](#) may rely on representations made by the [principal](#) regarding the existence and nature of any [constructive obligations](#) arising from the [reporting entity](#)'s employee benefit practices or policies. When doing so, the [actuary](#) should be guided by [ISAP 1](#) paragraph 2.3. Reliance on Others.

If it becomes apparent to the [actuary](#) in the course of performing the [actuarial services](#) that significant uncertainties exist regarding such representations, the [actuary](#) should seek clarification from the [principal](#). If the uncertainty is not resolved to the [actuary](#)'s satisfaction, the [actuary](#) should be guided by [ISAP 1](#) paragraph 2.5.4. Data Deficiencies.

This guidance does not impose additional duties on the [actuary](#) beyond the scope of the [actuarial services](#) to search for or analyze [constructive obligations](#) that go beyond formal plans or agreements.

**2.5. Categorization of Employee Benefit Plan** – The [reporting entity](#) is responsible for determining the categorization of its employee benefit plans under [IAS 19](#) as short-term, defined benefit post-employment, defined contribution post-employment, termination, or other long-term.

2.5.1. The [actuary](#) may advise the [principal](#) regarding the categorization of an employee benefit plan. When providing such advice, the [actuary](#) should exercise [professional judgment](#) when an employee benefit plan has characteristics of multiple categories (such as retirement plans that combine elements of defined benefit and defined contribution plans, or employment-related injury benefits that include both medical care and wage replacement).

2.5.2. If the [actuary](#) is uncertain as to the [reporting entity](#)'s categorization of an employee benefit plan, the [actuary](#) should seek guidance from the [principal](#).

2.5.3. The [actuary](#) should treat the [reporting entity](#)'s categorization of its employee benefit plans as a prescribed methodology to which [ISAP 1](#) paragraph 2.8. Assumptions and Methodology Prescribed applies.

**2.6. Actuarial Assumptions** – The [reporting entity](#) is responsible for selecting assumptions that are unbiased, mutually compatible, and represent the [reporting entity](#)'s best estimates of the variables that will determine the ultimate costs of its [employee benefits](#). The [actuary](#) may advise the [principal](#) regarding the selection or reasonableness of some or all of the assumptions to be used in the [actuarial services](#). In doing so, the [actuary](#) should be guided by paragraphs 2.6. to 2.9. of [ISAP 1](#), taking into account [IAS 19](#)'s requirements regarding assumptions used to measure defined benefit post-employment plans, termination benefits, or other long-term benefits. In particular, when using prescribed assumptions, the [actuary](#) should be guided by [ISAP 1](#) paragraph 2.8. Assumptions and Methodology Prescribed.

2.6.1. **General Approach for Selecting Assumptions** – When advising the [principal](#) on the selection or reasonableness of actuarial assumptions, the [actuary](#) should:

- a. Identify the types of assumptions needed to perform the [actuarial services](#).
- b. Evaluate information relevant to each type of assumption:

- i. With respect to financial assumptions, the [actuary](#) should review market-implied expectations and other information at the [measurement date](#). Examples of such information include:

- Corporate or government bond yields;
- Yields on nominal and inflation-indexed debt;
- Recent changes in relevant price indices (such as general or medical price inflation indices) and forecasts of inflation;
- Employment data and projections;
- Other relevant economic data; and
- Analyses prepared by experts.

The [actuary](#) may also consider the [reporting entity](#)'s expectations regarding assumptions where the [reporting entity](#) can influence future experience.

- ii. With respect to demographic assumptions, the [actuary](#) should review information that, in the [actuary](#)'s [professional judgment](#), is relevant to the population covered by the [reporting entity](#)'s [employee benefits](#). With respect to reviewing the experience of the covered population, this guidance does not impose additional duties on the [actuary](#) beyond the scope of the [actuarial services](#). Examples of such information that may be reviewed by the [actuary](#) include:

- The experience of the covered population to the extent credible;
- Analyses prepared by experts such as published tables or experience studies;
- Studies or reports on general trends relevant to the particular demographic assumption; and
- Relevant factors known to the [actuary](#) that may affect future experience such as the economic conditions of the geographic area or industry, availability of alternative employment, and the [reporting entity](#)'s human resource policies or practices.

The [actuary](#) may also consider the [reporting entity](#)'s expectations regarding assumptions where the [reporting entity](#) can influence future experience.

- c. Select an appropriate format for each type of assumption, taking into account materiality (see 2.2.) and proportionality (see 2.3.) (for example, mortality rates typically vary by gender and age, and when material and proportionate to the [actuarial services](#) might also vary by calendar year, employment type, location, or other factors).
- d. Recommend assumptions that in the [actuary](#)'s [opinion](#) are unbiased, mutually compatible, and, if adopted by the [reporting entity](#), would be appropriate to represent the [reporting entity](#)'s best estimate.

- 2.6.2. Mortality Assumption – When advising the [principal](#) on the selection or reasonableness of the mortality assumption, the [actuary](#) should reflect expected changes in plan members’ future mortality rates when material and proportionate to the [actuarial services](#). Examples of methods for reflecting future mortality rates include using a matrix including separate mortality tables for each year or year of birth or projecting the mortality rates for an appropriate period.
- 2.6.3. Discount Rate Assumption – When advising the [principal](#) on the selection or reasonableness of the discount rate assumption, the [actuary](#) should take into account [IAS 19](#)’s requirement that the discount rate reflect market yields at the [measurement date](#) on high-quality corporate bonds if the market for such bonds is deep or government bonds otherwise, where such bonds are consistent with the currency and estimated term of the employee benefit obligation. The [actuary](#) may use a variety of approaches to identify a discount rate assumption that satisfies this requirement, including the following:
- a. Full Yield Curve – The [actuary](#) may recommend a full spot-rate yield curve for discounting projected benefit cash flows. The [actuary](#) may develop an appropriate yield curve from bond yield data at the [measurement date](#). Alternatively, the [actuary](#) may apply a third party’s yield curve, which the [actuary](#) has determined is appropriate for the purpose of selecting an [IAS 19](#) discount rate (or has adjusted so as to make it appropriate). When applying a third party’s yield curve, the [actuary](#) should be guided by [ISAP 1](#), paragraph 2.3. Reliance on Others.
    - i. Bond Universe – When developing a yield curve or assessing the appropriateness of a third party’s yield curve, the [actuary](#) should consider the characteristics of the bond universe used to create the yield curve, including currency and, for corporate bonds, quality. The [actuary](#) should also consider whether adjustments are needed to deal with “outliers”—bonds with substantially different yields than the yields on most bonds of similar quality and duration included in the universe—or with bonds that have special characteristics, such as call features.
    - ii. Curve Fitting, Interpolation, and Extrapolation – When the [actuary](#) is constructing the yield curve from the available bond data in the same currency, the [actuary](#) should exercise [professional judgment](#) in applying appropriate curve-fitting, interpolation, or extrapolation techniques to estimate yields at durations where the [actuary](#) considers the bond market data unreliable or such data do not exist. Such techniques may take into account (with an appropriate spread or other adjustment) other market data sources such as yields on government or lower-rated corporate bonds, the swaps market, or yields on government or corporate bonds in other currencies with market-observable yields at durations beyond the longest duration bond in the same currency as the [employee benefits](#) and which the [actuary](#), having applied [professional judgment](#), considers appropriate for this purpose.
- An [actuary](#) using this approach may also determine a single weighted-average discount rate based on the yield curve (as described in 2.6.3.b.) for the [reporting entity](#)’s use in the IFRS financial statement disclosures.

- b. Single Weighted-Average Discount Rate Based on Yield Curve – The [actuary](#) may recommend a single weighted-average discount rate assumption determined by:
- i. Projecting cash flows on and after the [measurement date](#) of benefits attributed to employee service up to the [measurement date](#);
  - ii. Applying an appropriate yield curve (as described in 2.6.3.a. above) to determine the present value of the cash flows projected in 2.6.3.b.i.; and
  - iii. Calculating a single weighted-average discount rate that produces substantially the same present value determined in 2.6.3.b.ii.
- c. Single Weighted-Average Discount Rate Based on Bond Model – The [actuary](#) may recommend a single weighted-average discount rate assumption determined by:
- i. Projecting cash flows on and after the [measurement date](#) of benefits attributed to employee service up to the [measurement date](#);
  - ii. Applying a bond model to identify a portfolio of bonds—appropriately selected from the bond universe described in 2.6.3.a.i. above—that generates substantially the same cash flows projected in 2.6.3.c.i. At durations where the [actuary](#) considers the bond market data unreliable or such data do not exist, the [actuary](#) should apply techniques as described in 2.6.3.a.ii. above; and
  - iii. Calculating a single weighted-average yield on the bonds in the portfolio.
- When applying a third party’s bond model, which the [actuary](#) has determined is appropriate (or has adjusted so as to make it appropriate) for the purpose of selecting an [IAS 19](#) discount rate for measuring the cash flows, the [actuary](#) should be guided by [ISAP 1](#), paragraph 2.3. Reliance on Others.
- d. Alternative Approaches – The [actuary](#) may use alternative approaches to those described above. When doing so, the [actuary](#) should understand the data and assumptions on which the approach is based and the circumstances in which it can be applied appropriately. The alternative approach should take into account both the duration of the projected benefit cash flows attributed to employee service up to the [measurement date](#) and their shape (that is, whether the cash flows over time are smooth or lumpy). Subject to materiality (see 2.2.) and proportionality (see 2.3.), examples of alternative approaches include, but are not limited to:
- i. The [actuary](#) may recommend a single discount rate that, in the [actuary](#)’s [professional judgment](#), approximates the weighted-average rate that would be determined under one of the preceding approaches.
  - ii. The [actuary](#) may apply a market index or other reference rate, with adjustments if appropriate. The [actuary](#) should have sufficient understanding of the bond data and methodology used to construct the index or reference rate to conclude that it is appropriate for the purpose of selecting an [IAS 19](#) discount rate for measuring the present value of the defined benefit obligation (or has adjusted so as to make it appropriate). When applying a market index or other reference rate, the

[actuary](#) also should be guided by [ISAP 1](#), paragraph 2.3. Reliance on Others.

- 2.6.4. General Price Inflation Assumption – When the [actuary](#) is advising the [principal](#) on the selection or reasonableness of a general price inflation assumption, the [actuary](#) should review market-implied expectations and other information at the [measurement date](#). Examples of such information include:
- a. Changes in price indices;
  - b. Implicit price deflators;
  - c. Yields on nominal and inflation-indexed debt (taking into account the effect of any significant supply-demand imbalances);
  - d. Forecasts of inflation;
  - e. Relevant regional factors;
  - f. Central bank monetary policy;
  - g. Other relevant economic data; and
  - h. Analyses prepared by experts.
- 2.6.5. Medical Cost Assumptions – When the [actuary](#) is advising the [principal](#) on the selection or reasonableness of medical cost assumptions, the [actuary](#) should consider estimated future changes in the cost of medical services, which may differ significantly from general price inflation. When material and proportionate to the [actuarial services](#), the [actuary](#) should consider separate assumptions for major cost components such as hospital services, drugs, medical devices, other medical services, and administrative expenses. The [actuary](#) also should consider different assumptions for different future time periods.
- 2.6.6. Other Assumptions Regarding Future Benefit Amounts – For some types of [employee benefits](#), future benefit amounts under the plan may reflect factors other than general price inflation or future medical costs. When the [actuary](#) is advising the [principal](#) on the selection or reasonableness of an assumption about future benefit amounts, the [actuary](#) should identify relevant factors that, in the [actuary's professional judgment](#), are likely to have a material effect on future benefit amounts under the plan. Depending on the type of employee benefit plan, examples of relevant factors may include:
- a. Merit or promotional salary increases;
  - b. Investment returns on actual or notional assets;
  - c. Changes in benefit utilization or delivery patterns;
  - d. Changes in social insurance benefits;
  - e. Changes in offsets of benefits provided by other parties; and
  - f. Expected changes in mandated benefits.
- 2.6.7. Change in Process for Developing Assumptions – The [actuary](#) generally should apply a consistent process from year to year to develop recommended assumptions for a particular [reporting entity](#). When the [actuary](#) considers it appropriate to change the process used to develop a recommended assumption, the [actuary](#) should discuss

the change with the [principal](#), and should seek guidance from the [principal](#) regarding whether to make the change, and if so, what, if any, information about the change should be disclosed in the [actuary](#)'s [report](#). For example, if the [principal](#) determines that the change in the assumption-setting process may be subject to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the [principal](#) may ask the [actuary](#) to disclose the nature of the change and its general effect in the [report](#).

- 2.7. Plan Assets** – When the [actuarial services](#) take plan assets into account, the [actuary](#) should be guided by the following:
- 2.7.1. **Asset Values Supplied by Others** – The [actuary](#) may rely on asset values prepared by a third party (such as a trustee or investment manager) and, when doing so, should be guided by [ISAP 1](#) paragraph 2.3.3. Reliance on Others.
  - 2.7.2. **Qualifying Insurance Policies** – The [actuary](#) should distinguish between qualifying insurance policies and other sources of reimbursement for expenditures required to settle a defined benefit obligation. When plan assets include qualifying insurance policies, the [actuary](#) should appropriately reflect those policies in the calculation of the deficit or surplus. For example, the [actuary](#) should appropriately differentiate between the [reporting entity](#)'s employee benefit obligations and those that an insurer has assumed.
  - 2.7.3. **Asset-Related Benefit Liabilities** – When advising on the valuation of benefits where future benefit amounts are affected by the value of plan assets (for example, when benefit levels are linked to the return on plan assets (see paragraph 2.6.6.) or depend on whether there is a surplus), the [actuary](#) should value the [employee benefits](#) in a manner that is consistent with the nature of the linked assets.
- 2.8. Asset Ceiling** – The asset ceiling is the present value of economic benefits available to the [reporting entity](#) in the form of refunds from the plan or reductions in future contributions to the plan. [IAS 19](#) requires a [reporting entity](#) to recognize a net defined benefit asset at the lower of the surplus in the defined benefit plan and the asset ceiling. International Financial Reporting Interpretations Committee Interpretation number 14 (IFRIC 14) provides guidance on how to determine the asset ceiling. The [actuary](#) should seek guidance from the [principal](#) whether and how to apply the asset ceiling, having due regard to issues such as legal interpretation of the plan rules or any minimum funding requirements.
- 2.9. Attribution of Benefits to Service Periods** – When advising the [principal](#) on the attribution of plan benefits to service periods, the [actuary](#) should exercise [professional judgment](#) to address plan designs whose treatment is not fully specified in [IAS 19](#).

### Section 3. Communication

**3.1. Disclosures in the Report** – In addition to complying with [ISAP 1](#) Section 3. Communication, the [actuary](#) should disclose in the [report](#):

- a. Any material deviation from the guidance in this ISAP (1.3.);
- b. Any reliance on the [principal](#)'s representations regarding [constructive obligations](#) (2.4.); and
- c. Any information regarding a change in the process for selecting assumptions that is requested to be disclosed (2.6.7.).



## APPENDIX

Note: this appendix is provided only for informational purposes. It is not part of the ISAP and hence is not authoritative.

### Background

[IAS 19](#) prescribes employers' accounting and disclosure requirements for their [employee benefits](#) other than share-based payments, which are accounted for in accordance with IFRS 2 Share-Based Payment. On 16 June 2011, the IASB published a revised [IAS 19](#). As of the date of publication of this ISAP, the IASB has amended the revised [IAS 19](#) twice:

- A narrow-scope amendment entitled *Defined Benefit Plans: Employee Contributions*, published in November 2013.
- An amendment entitled *Discount Rate: Regional Market Issues*, included in *Annual Improvements to IFRSs 2012–2014 Cycle*, published in September 2014.

A key principle of [IAS 19](#) is that it generally requires the cost of providing [employee benefits](#) to be recognized in the period in which the employee performs services, rather than when the benefit is paid.

### Categorization of Employee Benefit Plans

[IAS 19](#) defines four categories of [employee benefits](#) (excluding equity share-based compensation):

- **Short-term benefits** expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services, such as wages, salaries, and social security contributions; paid annual leave and paid sick leave; profit-sharing and bonuses and non-monetary benefits (such as medical care, housing, cars, and free or subsidized goods or services) for current employees.
- **Post-employment benefits**, such as defined contribution retirement plans, pensions, lump sum payments on retirement, post-employment life insurance, and post-employment medical care. This category is further broken down between defined benefit and defined contribution plans:
  - Under a defined contribution plan, the [reporting entity](#) pays fixed contributions into a fund but has no legal or [constructive obligation](#) to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits;
  - A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.
- **Other long-term [employee benefits](#)**, such as long-service leave or sabbatical leave, jubilee or other long-service benefits, and long-term disability benefits.
- **Termination benefits** payable as a result of the [reporting entity](#)'s decision to terminate the employee or the employee's decision to accept an offer of benefits in exchange for termination of employment.



### Accounting Treatment Depends on Categorization

**Short-term benefits and defined contribution post-employment benefits.** For short-term benefits or defined contribution post-employment plans, the undiscounted amount of the benefits or contributions expected to be paid is recognized in the accounting period the employee renders service.

**Defined benefit post-employment plans and other long-term [employee benefits](#).** Defined benefit post-employment benefits and other long-term [employee benefits](#) are generally attributed to employees' service. The employer recognizes a liability/asset in the statement of financial position equal to the present value of these benefits attributed to service through the [measurement date](#) (the "present value of the defined benefit obligation"), minus the fair value of plan assets at the [measurement date](#). This net liability/asset is called the net defined benefit liability/asset. The net asset recognized on the employer's statement of financial position is limited to the "asset ceiling," defined as the present value of economic benefits available to the employer as refunds from the plan and/or as reductions in future contributions.

Employers must recognize service cost and net interest (on the net defined benefit liability/asset) in the profit or loss. Service cost includes the cost of benefits attributed to service during the accounting period, changes in the defined benefit obligation due to plan amendments or curtailments occurring in the accounting period, and gains or losses from settlements occurring in the accounting period. Net interest is calculated by applying the discount rate (used to measure the defined benefit obligation) to the net defined benefit liability/asset, adjusted for contributions and benefit payments during the accounting period.

All other changes in the net defined benefit liability/asset, including the difference between actual investment return and the expected return determined using the discount rate, changes in the defined benefit obligation from discount rate or other assumption changes, and experience gains and losses, are recognized immediately in Other Comprehensive Income (OCI) or, for other long-term [employee benefits](#), in profit and loss.

[IAS 19](#) provides a special rule for certain long-term disability or employment-related injury benefits. When the level of benefit is the same for any employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability or employment-related injury.

**Termination benefits.** Termination benefits are triggered by the termination of employment, and are recognized when the [reporting entity](#) can no longer withdraw the offer of those benefits or, if earlier, when the [reporting entity](#) recognizes associated restructuring costs. Termination benefits may take various forms, such as lump sum payments, pension benefit enhancements, or salary continuation for a specified period.

### IFRS Financial Statement Disclosures

[IAS 19](#) requires the [reporting entity](#) to disclose information in its IFRS financial statement that:

- Explains the characteristics of defined benefit plans and risks associated with them;

- Identifies and explains the amounts in the IFRS financial statement arising from defined benefit plans; and
- Describes how its defined benefit plans may affect the amount, timing, and uncertainty of the [reporting entity](#)'s future cash flows.

[Actuarial services](#) in connection with [IAS 19](#) often include assisting [reporting entities](#) in meeting these disclosure objectives. Areas where the [actuary](#) may provide particularly valuable input include:

- Disclosures about plan characteristics or risks that are unusual, [reporting entity](#)-specific or plan-specific, such as post-employment medical benefit plans with no lifetime claims limit, plan-specific limitations on refunds of surplus to the employer, concentrations of plan assets in one class of investments, or counter-party risk associated with expected insurance recoveries;
- Disclosures about existing risk management strategies such as enterprise risk management, asset-liability matching, or longevity swaps;
- Explanation of amounts in the IFRS financial statement, including the reconciliation of amounts shown in the IFRS financial statement from the beginning to the end of the year;
- The appropriate level of aggregation or disaggregation of employee benefit plans according to their characteristics and risks;
- Disclosures about how defined benefit plans may affect the amount, timing, and uncertainty of the [reporting entity](#)'s future cash flows (such as expected funding contributions);
- Disclosures about the maturity profile of the defined benefit obligation; and
- Disclosures about the significant assumptions used to determine the present value of the defined benefit obligation, their “reasonably possible” variation, and the consequent change in the present value of the defined benefit obligation at the [measurement date](#). [IAS 19](#) does not establish a numeric threshold for determining significance or reasonably possible variations, but in the Basis for Conclusions, there is a reference to IFRS 7 (paragraph B19) for the principles to be used to quantify “reasonably possible” variations.