
EXPLANATORY MEMORANDUM FOR PRACTICE GUIDELINE 3: ACTUARIAL PRACTICE IN RELATION TO AASB 119 EMPLOYEE BENEFITS

April 2018

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Superannuation Practice Committee ("SPC") to advise Members of the introduction of Practice Guideline 3: Actuarial Practice in Relation to AASB 119 Employee Benefits ("PG 3").

PG 3 is the Australian adaptation of International Standard of Actuarial Practice 3: Actuarial Practice in Relation to IAS 19 Employee Benefits ("ISAP 3") as approved by the International Actuarial Association ("IAA") Council on 11 April 2015 and amended 23 April 2017.

PG 3 replaces the Australian Guidance PG 499.04 which will be withdrawn on the commencement date of PG 3.

The intention of the International Standards of Actuarial Practice issued by the IAA is to promote a greater consistency of approach to actuarial practice internationally in a given situation, so as to increase the confidence of clients and the public in the actuarial work product, but without unnecessarily constraining the exercise of actuarial judgment or creativity.

B. Background

An Exposure Draft of PG 3 was released for Member comment in November 2017. Comments were received on:

- ▶ **Setting salary inflation.** It was suggested that more guidance was needed, and additional text was inserted in paragraph 2.6.6 of the PG.
- ▶ **Plan Assets.** An amendment to Section 2.7 was proposed, but not supported, as the existing text was deemed to be adequate.
- ▶ **Discount Rates.** An amendment to 2.6.3 was proposed, but not supported, as it was felt that the existing text in 2.6.3 (which is consistent with that used in ISAP 3) addressed the situation that the member was describing. Specifically, 2.6.3 adequately covers the use of the G100 discount rate derived by Milliman, which is current practice in Australia for many actuaries/entities.
- ▶ **Materiality.** Comments were received in relation to section 2.2 suggesting more clarity was required, and raising concerns over Auditor and Reporting Entity Thresholds, and comparability with general or life insurance standards. The drafting committee's decision was that the requirements in the PG are not about audit materiality, and that there is no suggestion that the actuary needs to make some adjustment to their work for the auditor's materiality. It was also noted that

given the recent development of IFRS 17, an equivalent to ISAP 3 has not yet been issued for general or life insurance.

C. Development of International Standards of Actuarial Practice (ISAPs)

ISAPs are model standards of practice issued by the IAA. An ISAP is a statement of actuarial practice expected of actuaries operating within a specified context. It sets minimum expectations on matters such as the methodology to be employed, the approach to be used in setting assumptions, the contents of the resulting report or opinion, and the way in which the report or opinion should be presented.

The IAA encourages its member associations (of which the Institute is one) to have in place professional practice documents that are substantially consistent with the ISAPs, bearing in mind the needs of their members. In September 2014, Council confirmed the intention of the Institute to achieve a degree of “congruence”, as far as is appropriate to the circumstances of Members, between ISAPs issued by the IAA and the professional practice documents issued by the Institute. In adapting ISAP 3 to create PG 3 for application by Members, the aim has therefore been to follow ISAP 3 as far as is appropriate given local circumstances.

ISAP 3 is the second ISAP adopted by the Actuaries Institute following the Australian adaptation of ISAP 1 as PG 1.

D. ISAP 3 and PG 3

PG 3 provides guidance to Members when providing actuarial services for an Entity's preparation of an actual or pro-forma Australian financial statement for any type of Employee Benefit that the Entity determines to be covered by the Australian Accounting Standard AASB 119. It is based on ISAP 3 which provides guidance on advice on Employees Benefits covered by IAS 19, which is the International Accounting Standard on which AASB 119 is based.

Based on the nature and extent of the differences between PG 3 and ISAP 3, the Institute has assessed that there is “strong convergence” between PG 3 and ISAP 3. PG 3 materially conforms to international standards of the IAA, with allowance for local modification to fit local conditions. However, given the differences, it should be noted that compliance with PG 3 will not necessarily result in compliance with ISAP 3. Therefore, where a Member is required to perform work in conformity with ISAP 3 (e.g. because the work is being undertaken in an overseas jurisdiction) the Member should refer to the specific requirements of ISAP 3.

The principles and requirements of PG 3 are consistent with ISAP 3, but provide some additional guidance on Australian issues:

- ▶ Section 2.2 has been expanded to include approximate methods typically adopted in Australia.

April 2018

- ▶ Section 2.5 has been expanded to cover hybrid arrangements common in Australia.
- ▶ Additional guidance on setting salary inflation assumptions has been added to section 2.6.

E. Relationship of PG 3 to PG 1

The actuarial services under PG 3 have been designated as Applicable Professional Services for the purposes of PG 1. This means that the requirements of PG 1 are applicable to the services performed under PG 3. PG 3 includes a requirement that compliance with PG 1 is a prerequisite to compliance with this PG.

D. Statement of compliance with Institute Policy

PG 3:

- (a) has been prepared in accordance with the Institute's Policy for Developing Documents to Guide and Regulate Professional Practice; and
- (b) is to be applied in the context of the Actuaries Institute Code of Professional Conduct.

PG 3 is not mandatory. Even so, if PG 3 covers the actuarial services a Member provides, then the Member should consider explaining any significant departure from this Practice Guideline to the Principal, and document that explanation.

E. Commencement Date

The new PG 3 will take effect for actuarial services performed on or after 1 April 2018.

END OF EXPLANATORY MEMORANDUM