

## EXPLANATORY MEMORANDUM

### UPDATED VERSION OF PRACTICE GUIDELINE 3 (ACTUARIAL PRACTICE IN RELATION TO AASB 119 EMPLOYEE BENEFITS)

March 2020

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#### 1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Professional Standards Committee (PSC) to explain the changes to Practice Guideline 3 (Actuarial Practice in Relation to AASB 119 Employee Benefits) (PG 3).

As the nature of the changes to PG 3 are not substantive they have not previously been exposed to Members, but were approved by Council as part of an expedited process.

#### 2. Background

PG 3 is the Australian adaptation of ISAP 3 issued by the International Actuarial Association (IAA). PG 3 was first issued by the Institute in April 2018. At that time the PSC assessed that there was “strong convergence” between PG 3 and ISAP 3 i.e. it was considered that PG 3 materially conformed to the requirements of the IAA, with allowance for local modification to fit local conditions.

Since then, the IAA has made conformance changes to ISAP 3 resulting from changes to ISAP 1. In light of these changes and noting that the Institute is also updating PG 1 and the Glossary of General Defined Terms Used in Practice Guidelines (Glossary) to take into account the changes to ISAP 1, the Superannuation Practice Committee has reviewed and updated PG 3 where appropriate. In addition, a number of changes have been made to align PG 3 with the Institute’s new Code of Conduct which takes effect on 31 March 2020.

#### 3. Changes to PG 3

The key changes to PG 3 are outlined below:

(a) Changes to align with the wording in PG 1 issued by the Institute in March 2020:

- Updated wording in paragraph 1.5 of PG 3 to replace references to “this PG” in PG 1 with “the Applicable PPD” or “all Applicable PPDs” as appropriate;
- Updated reference in paragraph 2.4 of PG 3 to paragraph 2.5.5 (Deficiencies in Data) of PG 1;

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- Changed “Professional Services” to “Services”, and “Applicable Professional Services” to “Applicable Services”, consistent with changes in PG 1 and the Glossary;

(b) Changes to wording consistent with conformance changes to ISAP 1:

- Clarified reference in paragraph 2.7.2 of PG 3 to sub paragraph 2.3.3 of PG 1;
- Updated reference to the term “Data” as a defined term in the Glossary.

(c) A new paragraph has been included in Section 1.3 of PG 3 for consistency with other professional regulation documents, stating that the PG does not constitute legal advice.

A number of other changes have been made to PG 3 in line with changes to ISAP 3, to streamline working and clarify requirements, and fix some minor formatting issues.

#### **4. Degree of Convergence between PG 3 and ISAP 3**

Despite there being a few differences between PG 3 and ISAP 3, the PSC has assessed that, based on the nature and extent of these differences, there continues to be “strong convergence” between PG 3 and ISAP 3 i.e. PG 3 materially conforms to the requirements 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.

#### **5. Commencement Date**

The updated version of PG 3 will take effect for Applicable Services in connection with AASB 119 performed on or after 31 March 2020.

**END OF EXPLANATORY MEMORANDUM**