25 June 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

E-mail: standard@aasb.gov.au

Dear Sir/Madam

Exposure Draft ED239

The Actuaries Institute is the sole professional body for actuaries in Australia, providing independent, expert and ethical comment on public policy issues where there is uncertainty of future financial outcomes. It represents the interests of over 4,000 members, including more than 2,000 qualified actuaries. It also has members practicing as actuaries globally, including many in the Asia Pacific region.

The Institute welcomes the opportunity to submit comments to the proposed changes to AASB 119. The Institute is broadly supportive of the proposed changes, as they will increase the comparability of financial statements across countries.

We enclose our response to the IASB and our response to the specific issues raised by the AASB.

We would be happy to discuss any of the matters raised in this letter.

Yours sincerely

John Newman
President

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446
e actuaries@actuaries.asn.au w www.actuaries.asn.au

AASB Specific Matters for Comment

1. *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issuer elating to:*

    (a) not-for-profit entities; and

    (b) public sector entities, including GAAP/GFS implications;

    We are not aware of any particular issues for these entities.

2. *Whether, overall, the proposals would result in financial statements that would be useful to users;*

    We agree that the proposals would increase the comparability and relevance of financial reports.

3. *Whether the proposals are in the best interests of the Australian economy; and*

    We believe that the proposals are in the best interests of the Australian economy.

4. *Unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.*

    We believe that the proposals potentially reduce the cost of current requirements under AASB 119 (2011) and provide greater certainty about the treatment of member contributions. We believe that the new proposal more clearly reflects the economics of member contributions to defined benefit superannuation funds. The greater certainty of treatment should benefit users of financial statements through greater comparability.

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446
e actuaries@actuaries.asn.au w www.actuaries.asn.au

25 June 2013

International Accounting Standards Board
First Floor, 30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Via 'Open to Comment' page on the IASB website (www.iasb.org)

Dear Sir/Madam

IASB Exposure Draft ED/2013/4

The Actuaries Institute ("the Institute") is the sole professional body for actuaries in Australia. It represents the interests of over 4,000 members, including more than 2,000 qualified actuaries. Our members have had significant involvement in the development of insurance regulation, financial reporting and related practices in Australia over many years.

The Institute welcomes the opportunity to submit comments to the proposed changes to IAS 19. The Institute is broadly supportive of the proposed changes as they will increase the comparability of financial statements across countries.

We address the specific matters for comment in the Appendix.

We would be happy to discuss any of the matters raised in this letter.

Yours Sincerely

John Newman
President

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446
e actuaries@actuaries.asn.au w www.actuaries.asn.au

Appendix: Specific Matters for Comment

Question 1 - Reduction in service cost

The IASB proposes to amend IAS 19 to specify that contributions from employees or third parties set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer. Do you agree? Why or why not?

We agree to and welcome this amendment, because "typical" Australian defined benefit plans have contributions which are a fixed percentage of an employee's salary and do not vary with the funding levels of the defined benefit plan. Without this amendment IAS19 could have been interpreted to required complex calculations which are not reflective of the true nature of member contributions in most defined benefits. That is the employer bears the risk and member contributions are simply fixed reduction in cost.

However we note that the proposed amendment could be too restrictive. Besides contributions that are a fixed percentage of an employee's salary and hence arguably linked solely to an employee's service, we are aware of employee contributions that are:

- Fixed on age on joining the scheme, current age or a more complicated age based formula.
- Fixed dollar amounts each year.
- A fixed percentage of salary up to an annual dollar cap.
- Chosen from a range by the member, with a higher contribution rate providing a higher level of defined benefit accrual. For example a member may choose a contribution rate that is an integral percentage of salary between 0% and 8% inclusive. Based on the member's choice their lump sum defined benefit will accrue at an annual rate between 8% and 24%. We acknowledge that member contributions under this arrangement could be considered discretionary contributions under paragraph 92.

It would be difficult to say that any of the above arrangements are linked solely to service in the relevant period. However, they do not represent the alternative under IAS 19 where "contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses".

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446
e actuaries@actuaries.asn.au w www.actuaries.asn.au

We suggest that the standard may more accurately capture the substance of the range of alternative contributions arrangements if the amendment were to read

> However, if, and only if, contributions from employees or third parties are not obliged to contribute to reduce a deficit arising from losses on plan assets or actuarial losses, the contributions may be recognised as a reduction in the service cost in that period. An example would be contributions that are a fixed percentage of the employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer.

Question 2—Attribution of negative benefit

The IASB also proposes to address an inconsistency in the requirements that relate to how contributions from employees or third parties should be attributed when they are not recognised as a reduction in the service cost in the same period in which they are payable. The IASB proposes to specify that the negative benefit from such contributions is attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70. Do you agree? Why or why not?

We understand that the intention of the Standard is that contributions from employees and third parties that are required to reduce a deficit are projected in the same way as the benefits that make up the defined benefit obligation. As these projected contributions are at some point in the future they must be attributed to a period of service.

We believe that the approach of attributing contributions to service in the same way as gross benefits paid in a particular period seems reasonable.

However, the approach raises questions about whether the attribution of contributions should be based on gross benefits at an individual level (and then the individual results aggregated to the plan level) or whether the attribution occurs at a whole of plan level. Alternatively perhaps either approach is acceptable.

We also suggest that the amended paragraph remains unclear. Contributions attributed in this way and contributions that are deducted from the service cost are both referred to as "linked to service". It is not clear from the proposed paragraph 93 how to distinguish between the two types of contributions.

The amended paragraph also raises a question about contributions from employees or third parties that reduce a deficit but are not linked to service, for example if all members are required to pay a fixed dollar amount towards reduction of a deficit.

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446
e actuaries@actuaries.asn.au w www.actuaries.asn.au

Question 3—Other comments

Do you have any other comments on the proposals?

We have no further comments.

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446
e actuaries@actuaries.asn.au w www.actuaries.asn.au