Seeing Beyond Risk — Canadian Institute of Actuaries / Institut canadien des actuaires — Voir au-delà du risque

June 2, 2014

Nicky Lahner
Principal, Accounting Standards Board
Toronto, Ontario

Dear Ms. Lahner,

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession. The CIA establishes the Rules of Professional Conduct, guiding principles, and monitoring and discipline processes for qualified actuaries. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

We thank you for the opportunity to respond to the Exposure Draft on 2014 Improvements to Accounting Standards for Private Enterprises dated March 2014.

In general, we support the proposed amendments to the employee future benefits paragraph 3462.031 as laid out. We believe the proposed amendments are clear, practical, and a benefit to all stakeholders.

That said, some additional guidance on implementation of the proposed changes would be useful.

The proposal states that, in making its choice to elect a funding valuation instead of an accounting valuation, the entity need not meet the criterion in Accounting for Changes, paragraph 1506.06(b). Some clarification on the accounting for the impact upon transition would be needed, regarding when the entity will elect to use a funding valuation for the first time. The use of a funding valuation instead of an accounting valuation will likely have an impact on the defined benefit obligation (DBO). The questions we have related to this are:

- How and when will the change in DBO be accounted for?
- Will it be through an adjustment in retained earnings, or though the profit and loss statement (P&L)?
- If an entity applies this change for the first time for its fiscal year beginning January 1, 2015, would it have to recognize the adjustment to retained earnings in 2014 or 2015? Or would it be through an adjustment to P&L, and if so, when?

As well, paragraph 3462.031 states that "an entity may prepare an actuarial valuation for an unfunded defined benefit plan on a basis consistent with that described in paragraph 3262.029 (a) provided that it has at least one funded defined benefit plan". Since the economic substance of the unfunded defined benefit plan (for example, a non-pension post-retirement plan) may be different from the funded defined benefit plan, it would be useful to confirm that assumptions other than the discount rate (for example, health care trend rates, or ageing factors) may be modified from the basis used in the most recently completed actuarial valuation prepared for funding purposes where appropriate to reflect the nature of the unfunded plan.

In addition, it appears that section 3462 does not currently require that the same approach (funding or accounting) be used for all unfunded plans. We wonder if this is intentional. If not, perhaps the standard should be amended to say that an entity should apply the same accounting choice to all unfunded plans.

The CIA trusts that the comments provided above will be of value. We thank you for offering us the opportunity to respond.

Respectfully submitted,

Jacques Lafrance
CIA President