Research Report

Research on Application of International Accounting Standard 19 in Australia and Its Implications [Revised]

This is an English translation of "オーストラリアにおける国際会計基準（IAS19）の適用に関する海外調査と示唆［改訂版］". The original was issued in Japanese.

July 2011

The Japanese Society of Certified Pension Actuaries

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Preface

This research report was prepared based on the field research on applying the International Financial Reporting Standards (IFRS, mainly IAS 19 employee benefits) in Australia that was conducted in April 2011.

Based on the progress of the convergence of Japanese standards and IFRS and the development of discussions on the adoption of IFRS in Japan, the Accounting Standards Committee of JSCPA conducted some field research in European countries, which have already introduced IFRS, in September 2010 and issued the research report titled "Overseas Research on Application of International Accounting Standard 19 and Its Implications" in March 2011.

At its meeting in January 2011, the Board of Directors of JSCPA authorized field research to be carried out in Australia as with the research in European countries, and we immediately began preparations. Since Australia has the following characteristics, it seems to be worthwhile expanding the range of our research.

- Introduced IFRS in 2005 (similar to Europe)
- Conversion of its own standards with IFRS (different from Europe, similar to Japan?)
- Lump-sum payment is common (different from Europe, similar to Japan)
- DC plans are currently predominant

In fact, this research was planned partly because I had an opportunity to go on a business trip to Australia to attend the meetings of the International Actuarial Association (IAA) in Sydney in April 2011. Takahito Hombe and I conducted the research.

In deciding on the places to visit, the following member of the Committee made arrangements for the organizations they belonged to respectively.

Akihiro Hotta	Deloitte Touche Tohmatsu LLC
Takahito Hombe	Russell Investments
Takanobu Miwa	KPMG AZSA LLC
Shinichi Nasukawa	Mercer Japan

As with the research in Europe, interviews were conducted based on a questionnaire that had been e-mailed in advance. I would like to thank those who kindly accepted having an interview for sparing their valuable time.

Utilizing the face-to-face interview, we not only obtained answers but also tried to grasp the background to the situation. On the other hand, since the research was based on interviews, it does not necessarily reflect statistical facts, and we may have misinterpreted some points. We summarized the results by exchanging information among the two of us in order to avoid such problems as far as possible.

I sincerely hope these research findings and their implications will be of interest to the many people who are interested in accounting for post-employment benefits as well as to members of JSCPA .

July 2011

Yasuyuki Fujii, Chair
Accounting Standards Committee of JSCPA

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I. Research Method

1. Research period

April 4–5, 2011

2. Research member

Yasuyuki Fujii (Sumitomo Trust & Banking)
Takahito Hombe (Russell Investments)

3. Places to visit

Company name	Interviewee
Deloitte	Diane Somerville
KPMG	Trent Duvall, Sarah Inglis, David McNeil
Mercer	Tim Jenkins, Mark Nelson
Russell Investments	Donald Campbell, Tim Furlan*

* Tim Furlan: Vice Chair, Accounting Standards Subcommittee of PEBC of IAA**
We are grateful for the comments received from him on the draft of this report (English version).

** PEBC: Pensions and Employee Benefits Committee
IAA: International Actuarial Association

4. Research procedure

We e-mailed the following questionnaire to the interviewees in advance.

Questionnaire

April 2011, JSCPA

Research Team on IFRS Adoption in Major Countries
of Accounting Standards Committee
of the Japanese Society of Certified Pension Actuaries

1. Are there any significant differences between IAS 19 and the local GAAP regarding DBO measurement, DB accounting approaches?
2. Has the diversity in measuring DBO grown compared with the local GAAP? If yes, in what points?
3. Please tell us about anything interesting that occurred when IAS 19 was introduced to your country, such as difficulties and challenges.

4. Which is a dominant way for discounting DBO, using yield curve directly or a single weighted-average rate?
5. How do you calculate a single weighted-average discount rate?
6. How are discount rates disclosed when yield curve is directly used for DBO measurement?
7. Who prepares yield curves?
8. How are yield curves developed?
9. How much does it cost to purchase yield curves?
10. How are discount rates set for pension plans when the entity has two or more plans?
11. When yield curve is directly applied, how is interest cost calculated?
12. What is the role of actuaries in the process of deciding discount rates?

13. How do you deal with the relationships among financial assumptions (salary increase, inflation and discount rate)?
14. What kinds of mortality table are usually adopted (with adjustment?) for DBO measurement?
15. Are expected future improvements of mortality rates reflected in DBO measurement?

16. Please tell us the examples of short-cut and approximation (para 51/IAS 19).
17. How do you consider about materiality when using data before the end of the reporting period (para 56,57/IAS 19)?
18. What kinds of actuarial technique are often used for roll forwarding the valuation to the end of the reporting period (para 56,57/IAS 19)?
19. When roll forwarding, is the yield curve replaced by the one that is marked to the market at the end of the reporting period?
20. What is the actual criterion for judging the materiality of back loading (para67/IAS 19)?
21. To what extent is the straight-line basis attribution used for covering the back loading?

22. Are there any problems with IFRIC 14 (Asset Ceiling, Minimum Funding Requirement)?
23. Please tell us actual actuarial methods for DBO measurement of hybrid plans.

24. Are there any cases where actuaries get involved in narrative description?
25. How do you deal with the situation where the entity's policy is different from the actuary's view?

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Questionnaire

April 2011, JSCPA

26. Are there practical standards, guidelines or notes for actuarial works on DB accounting for IAS 19 (or for the local GAAP)?
27. Are they (standards, guidelines, notes) compulsory, optional or educational?

28. Are actuarial services for DB accounting provided mainly by actuarial firms? Or by other kinds of firm or self-employed actuaries?
29. How many full actuaries does your firm have for DB accounting business?
30. How many clients does your firm have for DB accounting business?
31. How many actuaries write signature to one actuarial report for DB accounting?
32. What is the average fee for one actuarial report for DB accounting?
33. How does your firm manage the busy season for DB accounting actuarial works?
34. Are there any cases in which actuaries or actuarial firms were accused in DB accounting business?
35. Is there any possibility that actuaries should compensate personally for damages in DB accounting work?

36. Are there any cases where actuaries do not get involved in measuring DBO? If yes, please tell us the case.
37. What is the role of actuaries who appointed by (foreign) subsidiaries for the purpose of consolidated accounting?
38. What is the role of actuaries who appointed by the HQ for the purpose of consolidated accounting?

39. Are there any cases where actuaries do not get involved in auditing the DB accounting? If yes, please tell us the case.
40. From what viewpoints do actuaries audit DB accounting?

41. How does corporate management get involved in pension management in respect of formality and reality?
42. Do you think that actuaries meet their client's expectations?
43. What are actuaries expected to do?

44. What is currently the dominant method for recognizing actuarial gains and losses, deferred (corridor approach), P&L immediate or OCI?
45. Which do you think investors have so far attached importance to, net income or comprehensive income (or other accounting items)?
46. Is OCI taken into account for a dividend rule and policy?
47. Is OCI that arises from DB accounting taken into account for a dividend rule and policy?
48. In what way do you think investors are using the information on DB accounting in making corporate analysis?
49. Do you think investors will change their perspectives following the amendments to IAS 19?

50. What do you think the vital points in the ED or final version of the amendments (phase one) to IAS 19? For your information, our comment letter to IASB about the ED is attached.

II. Background, Summary of Research Findings and Implications

1. Corporate pensions in Australia

In Australia, corporate pension is generally called “superannuation”.

The 1992 Superannuation Guarantee Law made superannuation compulsory which consists of employer’s contributions (the minimum contribution was 3% at first but increased to 9% in 2002) and employees’ contributions (voluntary). Superannuation covers not only full-time employees but also part-time employees and fixed-term workers.

Previously, most pension plans covered high-income and long-service employees, but after its implementation, superannuation became widespread as the second pillar of pensions in Australia.

In general, Australia is known as a country where DC is predominant, but unlike Japan, DC was not developed by transferring from DB (including lump-sum post-employment benefits). They enacted the law and mandatorily introduced corporate pension plans to areas that were not traditionally covered by such plans, and this led to an increase in the number of DC. Although DB is said to be disappearing, in fact, the number of closed-type DB (that does not accept new members, although the members existing at the closure receive the same benefits as before) has stayed largely stable.

One of the main features of superannuation in Australia is its management scheme. Since the law stipulates a mandatory minimum contribution rate, the fundamental way to manage the plan is from the perspective of contributions. The DB and DC are incorporated into a single management scheme, and it is designed to allocate employer’s contributions and employees’ contributions (voluntary) to the DB and DC components. Therefore, there is a strong sense of unity between the DB and DC. Some participate in both the DB and DC, and some plans determine the benefits based on a comparison between the DB and DC formulae.

Most DB formulae are relatively simple, final-salary proportional (the definition of final salary varies). A lot of DB funds provide lump sum only, i.e. people in those plans do not have another choice. If lump-sum payments are optional, most people do choose them. There are several reasons for this: 1) lump-sum payments are tax-exempted for those aged 60 or over, 2) relation to the means test of the public pension plan, and 3) some people believe lump-sum payments are easier to

leave as an inheritance.

A means test of the public pension plan is to check the amount of income and assets to see whether pension benefits can be reduced. For example, in the case of checking the income of a married couple, the upper income limit for receiving full benefits is A$256 (per two weeks), and the income must not exceed A$2,454.8 (per two weeks) for partial benefits (source: Australian Government, Centrelink (Website)). Therefore, they may receive more benefits from the public pension plan if they receive a lump-sum payment and use it to cover lump-sum repayments of mortgages or such like. As a result, the total amount of benefits may become larger.

The effect on financial report of the DB sponsor is commonly not very material and is decreasing since the traditional DB plans cover only high-income and long-service employees, and closed-type DB is becoming more popular. Accordingly, people are relatively uninterested in post-employment benefits accounting.

2. Bond market in Australia

Next, let's look at the bond market, since it is essential to understanding the practice regarding the discount rate.

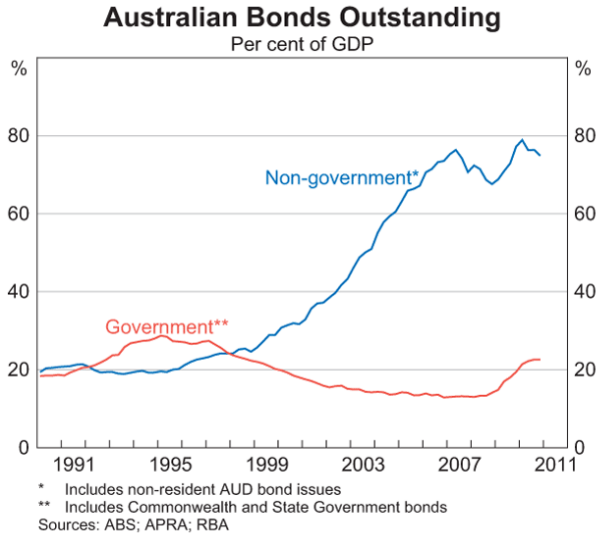
According to the Reserve Bank of Australia, the total amount of outstanding corporate bonds in 2005, when the accounting standards amended, was approximately A$380 billion (including those issued by financial institutions), which was larger than the A$121 billion of government bonds. However, 75% of them were short-term corporate bonds, and long-term corporate bonds amounted to only A$96 billion.

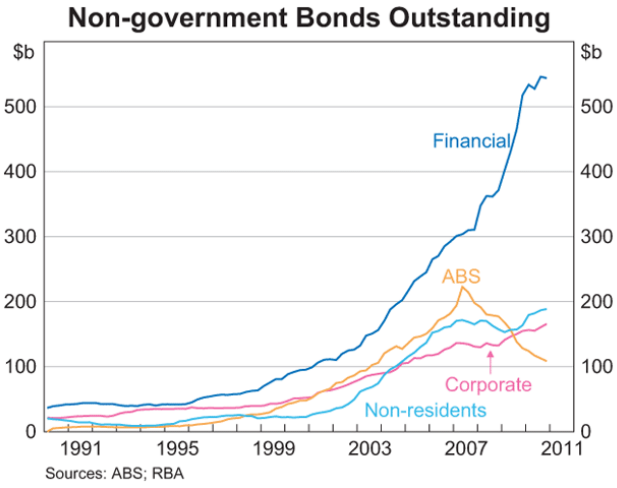
In addition, the issuers of high-quality corporate bonds (with a rating of AA or higher) are only financial institutions and the largest telecommunications company in Australia. Not only is the amount of issuance small but also there are few issuers.

As such, the high-quality corporate bond market in Australia is considered to be small. In the interview, people answered that the high-quality corporate bond market in Australia is small with only one or two issues and no long-term corporate bonds. The discount rate in the process of calculating DBO is generally determined by referring to yields on government bonds.

However, the situation with the corporate bond market has been changing dramatically in recent years. As of the end of February 2011, the total amount of corporate bonds reached nearly A$600 billion, and this figure keeps growing. In addition, the total amount of long-term corporate bonds increased to A$230 billion, placing them on a par with long-term government bonds (A$320 billion).

If this market continues to expand, the high-quality corporate bond market may become deeper, and how to practically determine the discount rate might be re-examined in the future.





Reference

- Australian Prudential Regulation Authority, Statistics Annual Superannuation Bulletin, June 2010
- Reserve Bank of Australia, The Australian Bond Market in 2011 and Beyond, March 15, 2011

4. Summary of research findings and implications

What is important when looking at the research findings is to consider ingenuities and simplification on a practical level against the backdrop of the market size and the perspective of materiality in Australia.

As mentioned above, since the high-quality corporate bond market is not sufficiently deep in Australia, determining the discount rate is generally done by referring to government bonds.

As a way to determine the discount rate, they do not use a yield curve but pick up the market yield from the trading performance of government bonds which corresponds to the average period of benefit payments calculated by some method.

In practice, most plans seemed to use the yield of the 10-year government bonds for the following three reasons: 1) the yield curve has been very flat since they adopted IAS 19, 2) the maximum period for issuing government bonds is 12 years, and the market yields on government bonds are published for up to 10 years , and 3) the effect of the difference in discount rates is not large because the sensitivity of DBO to discount rate is relatively small mainly based on the fact that lump-sum payments are predominant.

This simplification on a practical level is observed in other aspects as well. For example, it is common to calculate DBO by using data before the end of the reporting period (three months before in general; the discount rate often refers to the market yield of one month before), and they do not implement roll forwards or make adjustments to reflect the market yields at the end of the reporting period from the perspective of materiality. It is also rare to use the market price itself at the end of the reporting period for plan assets. This is because they place emphasis on ensuring consistency between measurements of DBO and plan assets.

Furthermore, we found that they solved issues and managed practical affairs by giving sufficient consideration to the following systems unique to Australia, for which IAS 19 does not stipulate any concrete standard for handling.

- Hybrid plan
- Pension tax system

The whole concept of the actuarial practice guideline for post-employment benefits accounting

also can be used as a reference for our thinking.

In Australia, the text of the local standard was amended to be fundamentally the same as IAS 19 in 2005. The Institute of Actuaries of Australia is preparing an actuarial practice guideline for the local standard that corresponds to IAS 19 and is now in the final stage. The exposure draft was opened to comments until March 18, 2011.

The actuarial practice guideline (exposure draft) is not mandatory. However, when actual practice significantly deviates from it, a member should consider explaining the situation to the client and document it.

Furthermore, the actuarial practice guideline (exposure draft) says "In particular, it is noted that the Member's role is as an adviser and that final decisions on assumptions and methodology remain the responsibility of the Entity. Following the instructions of the Entity represents reasonable grounds for departure from this Practice Guideline. However, the Member should document in the final report any instructions received, especially those that lead to results that the Member believes are unreasonable."

III. Research Findings

1. Discount rate

Government bond or corporate bond?

Since there are few high-quality corporate bonds in Australia (a few issues with active trading, terms generally less than five years), and the market is not "deep", they use government bonds instead. Companies that apply US-GAAP may use corporate bonds. Since issues of ultralong-term government bonds are limited, it is difficult to obtain market yields for government bonds of 12 years or longer.

With regard to the background as to how they came to use government bonds, the interviewees told us as follows.

- Australian 2005 version of IAS 19 (AASB 119) used to have the Australian paragraph (see the section 9 of this report) : Aus 78.1 In applying the requirement in paragraph 78, Australia does not have a sufficiently active and liquid market for high quality corporate bonds. Accordingly, market yields on government bonds shall be used to discount post-employment benefit obligations denominated in Australian currency. This had a major effect later.
- Big four audit firms agreed to use market yields on government bonds.
- The government bond market in Australia is not necessarily deep. However, IAS 19 stipulates the use of government bonds when the high-quality corporate bond market is not deep and does not mention the depth of the government bond market.
- Although the situation of the market has changed somewhat since then, no review has been conducted, and the original practice has been followed.

Opinions are sometimes divided over which bonds should be treated as government bonds, the ones issued by the federal government or the ones issued by the State governments for example New South Wales (NSW).

Yield curve

They do not generally use a yield curve. They use the market yields of government bonds published by the Reserve Bank of Australia.

When we looked at the website of the Reserve Bank of Australia after the interview, we confirmed that the market yields of the federal government bonds (2, 3, 5 and 10-year) as well as the NSW government bonds (3, 5 and 10-year) were published as the statistics of Capital Markets Yields – Government Bonds.
(Source: http://www.rba.gov.au/statistics/tables/index.html#interest_rates)

As for the market yields on corporate bonds, which are used by companies that apply US-GAAP, they calculate a credit spread of government bonds based on 1) the data of Bloomberg or 2) the SWAP rate, and add it to the market yields on government bonds.

Type of discount rate

Single discount rate

Calculation method of single discount rate

They calculate the duration of DBO or the average period of benefit payments by some method and determine the discount rate by applying it to the market yield table by terms published by the Reserve Bank of Australia.

In theory, when there is no matching term, interpolation/extrapolation becomes necessary. However, in practice, since there is no material impact, the market yield of 10-year government bonds is often used as it is.

The reasons for implementing this type of practice are as follows: 1) the yield curve is very flat compared with the rest of the world (and has been since they adopted IAS 19), their cash rate (government overnight rate) is currently 4.75%, the 5 year rate is 4.8% and 10 year rate is 5.143%, 2) the maximum period for issuing government bonds is 12 years, and the market yields on government bonds are published for up to 10 years, and 3) the effect of the difference in discount rates is not large because the sensitivity of DBO to discount rate is relatively small mainly based on the fact that lump-sum payments are predominant.

The reason why lump-sum payments are preferred is because lump-sum payments are tax-exempted for those aged 60 or over, and because of the relation to the means test of the public pension plan. And, some people believe lump-sum payments are easier to leave as a heritage.

Treatment in the case of multiple plans

It is common to use a single discount rate (the market yield on 10-year government bonds) for multiple plans. However, companies that apply US-GAAP may determine the discount rate for each plan.

Involvement of actuaries in determination of the discount rate

As with other assumptions, although the decision-making entity is a company, the role of actuaries is significant. In most cases, the discount rate proposed by actuaries is used as it is. However, very occasionally, companies that collect market data on their own may express their opinions.

Other

If there are any fractions in the discount rate, they may be rounded to the nearest thousandth of a unit (0.1%) or to the quarter of the nearest hundredth of a unit (0.25%) (the actuarial practice guideline (exposure draft) has a description on this).

2. Inflation rate

The assumption of inflation rate is determined by referring to the target inflation rate set by the Reserve Bank of Australia or the inflation rate calculated based on inflation-linked bonds (break-even inflation rate).

3. Salary increase

The rate of future salary increase is determined by having discussions with companies. If there is any salary increase that has already been agreed to with parties such as labor unions, that rate will be referenced.

4. Mortality

Status of standard mortality table

They use the mortality table of Australia, but a very few pension plans of public officials may prepare its own mortality rate as the group characteristics may differ.

Form of standard mortality table

The standard mortality table does not incorporate future improvements nor consist of generation tables.

Device in actual application of mortality table

The mortality table may be applied by shifting ages (applying the mortality rate of (n-m) years old to the mortality rate of n years old).

Other

Since most benefits are paid by lump-sum, the effect of the mortality rate is not significant. Therefore, it is not given importance.

A certain firm said that it frequently uses the mortality table of the United Kingdom. The reason for this practice is as follows:

Since not so many people receive pensions, there is no mortality table for pensioners in Australia. Therefore, actuaries need to choose whether to use the mortality table of pensioners overseas (the UK, in general) or the mortality table of the overall population in Australia as basis for their assumptions. They believe that the mortality table of pensioners in the UK better reflects the fact that pensions are optional than the table of the overall population in Australia.

For a similar reason, the solvency standards for life insurance in Australia specify the Australian table for the insured, while that of the UK for pensioners.

5. Use of computational short cuts and approximation, roll forward

Fundamental idea

It is based on the materiality against the overall accounting.

Specific computational short cuts and practice of roll forward (flow of practice and criteria for judgment)

Full actuarial valuation is conducted every year in general, but the period between the

data reference date and the end of the reporting period is typically three months. Roll forward is done by reflecting the service cost, amount of benefits and interest cost in DBO up to the end of the reporting period on the data reference date. Adjustments to the discount rate to readjust it to the one as of the end of the reporting period are made by using the sensitivity of DBO to discount rate.

However, since the effect is not so large to begin with, roll forward or adjustments of DBO are not conducted in many cases. Since preparers of financial reports also prefer no change in the numbers if the effect is limited, it is rare for roll forwards to be conducted.

- The situation was different during the period from the start of the financial crisis in autumn 2008 to the first half of 2009, but the market yields on government bonds have been stable in general with little change.
- Since lump-sum payments are predominant, and the duration of DBO is relatively short, the interest risk of DBO is less significant.
- For many companies, the effect of DBO on the overall accounting is limited.
- The data reference date is three months prior to the end of the reporting period, but for the discount rate, the market yield one month prior is often used. The market yields change little in one month in general.

The market price as of the end of the reporting period is rarely used for plan assets, not just with DBO. This is because they place emphasis on ensuring consistency between measurements of DBO and plan assets.

6. Back loading

Existence of plan that generates back loading

In general, since the benefit formula for the DB is “Final salary (for example, average salary for three years with the highest salary out of the final 10 years) × Years of service × Fixed rate”, there is considered to be no back loading. There have been no problems in this area.

7. IFRIC 14

There has been no issue regarding IFRIC14 in effect because the funding level of the DB in Australia does not become so high that it requires considering a ceiling on DB assets.

The reasons why the issue of asset ceiling rarely occurs are as follows:

In a common pension plan in Australia, the DB (closed-type with no new members in which additional DC is established together) and the DC (in many cases, only the DC accepts new members) coexist in a single plan.

The law requires companies to make contributions (total of the DB and DC) that exceed a certain level (for a common plan, contributions consist of company's contributions (the statutory minimum contribution rate is 9%) and employees' contributions (voluntary, approximately 4% on average)). Thus, if surplus funding exists in the DB in which an additional DC is established, contributions to the DB are terminated and switched to the DC (overflowing contributions to the DB are terminated and poured into the DC instead).

In addition, Minimum Funding Requirement is likely to have little meaning since it is far below the contribution level of a standard company.

8. Hybrid plan

Are there hybrid plans?

Yes, there are.

Details of hybrid plan

In Australia, there are basically two types of meaning for the word hybrid plan:

i. A single plan that has two different structures, DB and DC. This means either type of plan where members of the DB and DC are different or one where a single member can participate in both the DB and DC at the same time. In the latter case, a member of the DB may additionally place his or her contributions in the DC.

ii. A plan where the amount of benefit will be either DB or DC, whichever is higher. For example, there is a plan where the amount of benefit will be the lump-sum payment of the DB or the DC balance, whichever is higher at retirement. In this case, asset allocation of the DC is generally determined by a company, not by its member.

Accounting for hybrid plan

Treatment of these types of plan is not specifically considered in IAS 19. The actuarial practice guideline (exposure draft) states that it is necessary to handle such system by considering the substance of the plan.

That is, when the substance of a hybrid plan is separate DB and DC arrangements, and the separate arrangements are material, they may be accounted for as separate plans. When the benefit for an individual is the greater of DB and DC formulae, it may be appropriate to treat the entire benefit as DB or to treat the benefit as DC with a DB top-up. The guideline also states that the separate treatment is a matter of accounting policy and hence the responsibility of the company, and subject to review by its auditors.

We confirmed on site that practical matters are managed in accordance with the actuarial practice guideline (exposure draft). In addition, when they treat the entire benefit as DB, for example, the component of DBO that corresponds to the DC will be the same as the DC balance. As a result, the difference between DBO and plan assets will be the same as the one when treated as DC with a DB top-up.

9. IAS 19 and local GAAP

Changes in local GAAP

Before the standards were amended to ones similar to IFRS, there was no post-employment benefits accounting standard like IAS 19. Contributions were treated as expenses.

The local GAAP amended to be similar to IFRS was applied from 2005. The local standard that is equivalent to IAS 19 is AASB119.

Australian Accounting Standards Board (AASB) still exists.

The local GAAP consists of the same text as IFRS plus some new paragraphs added originally by AASB. Those new paragraphs unique to AASB stipulate the date of application as the Australian standards for instance, and have "Aus" before each paragraph number to distinguish them from IFRS original paragraphs.

10. Topics regarding application of IFRS (difficulties, etc.)

We obtained the following comments:

- Since there were no post-employment benefits accounting before the application of IFRS, the administrative workload at the time of application was quite heavy.
- Since there are many companies in Australia whose parent companies are located in the UK and US, they have had experience in DBO calculation. Therefore, for actuarial consulting firms and others, the technological hurdles they had to overcome regarding system development for calculating obligations were not high.

11. Actuarial practice standards for IAS19

Are there direct actuarial practice standards or such like of IAS 19?

No, there aren't.

Treatment already adopted on a practical level (alternate standards, etc.)

Since the local standard was amended to be similar to IAS 19, the actuarial practice guideline for the local standard is now being prepared by the Institute of Actuaries of Australia and is now in the final stage. The exposure draft was opened to comments until March 18, 2011.

Although the local GAAP was amended to one similar to IAS 19 six years ago, the exposure draft of the actuarial practice guideline was published in 2011. The exposure draft was published as the guidance note in 2005, but it took six years for the guideline to

be finalized since the Institute of Actuaries of Australia reviewed the whole concept of the actuarial guidelines after that, and the accounting standards were amended several times.

Positioning, binding force and penalty

The actuarial practice guideline (exposure draft) is not mandatory.

However, when actual practice significantly deviates from it, a member should consider explaining the situation to the client and document it. This indicates that it is mandatory to some extent.

Other points

Throughout the entire actuarial practice guidelines (exposure draft), the emphasis is on issues unique to Australia.

For areas where a conflict of interest is likely to be created between actuaries and a company, the following reminder is presented.

> In particular, it is noted that the Member's role is as an adviser and that final decisions on assumptions and methodology remain the responsibility of the Entity. Following the instructions of the Entity represents reasonable grounds for departure from this Practice Guideline. However, the Member should document in the final report any instructions received, especially those that lead to results that the Member believes are unreasonable.

12. Role of actuaries who belong to actuarial consulting firms

Involvement in actuarial practice regarding post-employment benefits accounting

In a certain consulting firm, only one actuary signs, but another actuary may sign in addition as necessary.

Involvement in preparation of financial reports

It seems that actuaries are not generally involved in qualitative disclosure information.

Other

Since most of the DB are closed-type (no new members), the number of traditional

actuarial services is decreasing. On the other hand, actuaries are expanding their scope of services in various areas including investment.

13. Involvement of actuaries who are engaged in audit work

Involvement in actuarial practice regarding post-employment benefits accounting

Actuaries are not necessarily involved in audit work of all the clients.

14. Other matters regarding post-employment benefits accounting

Current common treatments of the actuarial gains and losses

We obtained the following comments:

- OCI recognition is common. In the case where a parent company is US based and US-GAAP is applied, for example, delayed recognition (needless to say) is adopted.
- OCI recognition is common. Some companies adopt immediate recognition in the P&L.
- OCI recognition is common. Delayed recognition is selected most often next to OCI recognition. Few companies adopt immediate recognition in the P&L.

Are there any cases where actuaries do not get involved in measuring DBO?

We obtained the responses that they had never seen such cases.

Involvement of actuaries in post-employment benefits accounting of foreign subsidiaries

It is rare for actuaries to get involved in post-employment benefits accounting of foreign subsidiaries, but global actuaries who provide services to US parent companies may confirm the reasonableness and compatibility of actuarial assumptions.

However, since Australia is geographically far away from other major countries, it is not common for actuaries in other countries to get involved directly.

Investors' utilization of post-employment benefits accounting (reflection in corporate analysis, etc.)

We obtained the following comment:

In the case of deficit, future impact on cash flow (increase in contributions) may be considered.

Opinions and comments on the exposure draft for the amendments of IAS 19

We obtained the following comments:

- Since the materiality of post-employment benefits is limited, there might be little interest to begin with.
- Companies that adopt immediate recognition in the P&L for actuarial gains and losses may be faced with a lack of choices.
- Since the expected rate of return is generally set higher than the discount rate, it may be better if the expected rate of return does not exist.
- It is not good if we have too much disclosed information. We should only have information that is meaningful.

15. Other

Involvement of company in pension plan management

As with the UK, the basis of corporate pension plans is the trust scheme. The original structure is that persons appointed by a company and its members serve as trustees, and they are obliged to act only for the benefit of beneficiaries.

However, many pension plans have been using the scheme of "master trust" recently. In this scheme, a trustee board is established first, consisting of a consulting firm (or its employees) or third parties, and the board structures a master trust with a license from the government. Then, a sub-trust committee is created for each plan, which serves as a basis for each plan. The sub-trust committee virtually plays the role of a trustee, but the trustee board becomes a trustee in a legal sense.

In applying accounting standards, whether a master trust falls under the category of the multi-employer plan may become a point at issue. However, since each plan

participating it is managed and administered separately, a master trust does not fall under the category of a multi-employer plan.

The reason why the usage of a master trust is increasing is because it has a cost-cutting effect since it leads to efficient management and administration.

It is the plan sponsor that generally determines the investment policy for plan assets, not a trustee board or a sub-trust committee. Therefore, it is generally the plan sponsor that seeks advice from a consulting firm regarding the investment of plan assets.

Investors' perspective on net income and comprehensive income

We obtained the following comments:

- They observe net income.
- They observe P&L. Since the impact is limited, other comprehensive income may not be referenced. They have little interest in pensions to start with.

Dividend rule and policy

We could not obtain detailed information, but the dividend rule regarding realized gains and losses and OCI seems to be similar to that in the UK.

Pension tax system

In Australia, pensions are taxed at contributions, investment and tax-exempted at benefits payment. Specifically, companies can treat contributions as losses, but tax is imposed on a pension plan for 15% of contributions. Regarding investment, 15% tax is imposed on returns on plan assets. Benefits are tax-exempted when recipients are aged 60 or over, even if benefits are provided as lump-sum payments.

IAS 19 does not specify the treatment of these matters. One of the major challenges in Australia is how to incorporate these issues into DBO measurement.