ACTUARIAL SOCIETY
of
HONG KONG
香港精算學會

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By e-mail (commentletters@hksa.org.hk) and fax (2865-6776)

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Dear Mr Riley

EXPOSURE DRAFT OF A PROPOSED SSAP, ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

The Hong Kong Society of Accountants ("HKSA") Financial Accounting Standards Committee ("FASC") has issued an exposure draft ("ED") of a proposed SSAP, Accounting and Reporting by Retirement Benefit Plans, for comment. The ED, if passed, will replace the existing Statement 2.302, Financial Statements of Retirement Schemes.

Over the years, the Actuarial Society of Hong Kong ("ASHK") has been actively involved in discussing and commenting on the actuarial aspects of public, social, economic and financial issues by working closely with policy-makers, professional associations, employers and employees. Mr Keat Tian, the Chairman of the Retirement Scheme Committee of the ASHK, has invited comments from all committee members on the ED. Members' key comments are summarized in this letter for the FASC's consideration.

General

The ED is based on IAS 26, Accounting and Reporting by Retirement Benefit Plans, and includes an appendix (the "Appendix") that sets out additional guidance on preparing financial statements for Mandatory Provident Fund Schemes and Occupational Retirement Schemes. Although the ED is expected to replace the existing Statement 2.302, most of the contents in the existing Statement 2.302 are retained in the Appendix.

Some of our members are concerned that the main text of the ED is a verbatim copy of IAS 26 and does not make any amendments for applicability to actual retirement scheme situations in Hong Kong. Some situations described in IAS 26 are not suitable for Hong Kong. For example, the definitions of defined contribution plans and defined benefit plans in the ED are different from those prescribed in the Occupational Retirement Schemes Ordinance ("ORSO"). In addition, all retirement arrangements in Hong Kong must be in formal agreements, as informal retirement arrangements mentioned in the ED are not currently legal. Although the Appendix addresses some particular issues related to Hong Kong retirement schemes, the Appendix is only used for additional guidance and thus some of our members believe that the main text of the ED should reflect actual Hong Kong retirement scheme practices.

Actuarial Present Value of Promised Retirement Benefits

In Paragraph 23, the present value of the expected payments by a retirement benefit plan may be calculated and reported using current salary levels or projected salary levels up to the participant's expected time of retirement. Given the two acceptable choices, some of our members are concerned with the following issues:

- Who should be the sole party to make this decision? Should this be the auditors, the scheme sponsor, the trustee or the actuary?
- Can this decision be made annually or periodically? If so, how valuable is this to the users assessing the relationships between the net assets available for benefits and the benefit liability over time, or in comparing the financial statements among different schemes?
- If the current salary approach is adopted, the liability will be inconsistent with those required to be disclosed under SSAP 34 and with the aggregate past service liability in the actuary's certificate, which both use the projected salary approach.

Under the ORSO, the past service liability for a defined benefit scheme used in the Appendix is defined as "the value on that particular day, as determined by an actuary, of the benefit entitlement under the scheme of, or in respect of, the member which, have regard to his qualifying service, could reasonably be expected to be received prospectively or contingently or, where appropriate, both; the actuary having made a reasonable allowance for the effects of mortality, what he considers to be prospective future salary increases, withdrawal from service rates and such other factors (if any) as he considers relevant." According to this definition, projected salary levels should be considered in determining the past service liability.

According to Paragraph 33h of the Appendix, the past service liability should be included in the notes to the financial statements. We interpret that the Appendix implies that the projected salary level approach should be used to determine the actuarial present value of promised retirement benefits in Hong Kong. Please confirm whether our understanding is consistent with the FASC's.

Changes in Actuarial Assumptions and in Actuarial Present Value of Promised Retirement Benefits

In Paragraph 18 of the ED, it states that "the effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits should also be disclosed." Also, the changes in actuarial present value of promised retirement benefits should be included in one of the acceptable report formats as specified in Paragraph 28(a). Since no Hong Kong specific guidance has been provided in the Appendix, some of our members believe that it would be beneficial for the ASHK to work with the HKSA to develop an appropriate format for disclosing the changes. We would like to hear your thoughts on this.

Contributions Not Yet Paid to the Scheme

In Paragraph 35(b) of the ED, employer contributions and employee contributions are included in the net assets available for benefits. However, it is unclear whether contributions receivable should be included.

Some of our members questioned whether a contribution payment that should have been made within the 12-month period before the balance sheet date but was actually made after the balance sheet date could be included as a contribution receivable in the net assets available for benefits. A common example of this is that some employers will make the December contribution in the following January. If the balance sheet date is 31 December, should the contribution made in January of the following year be considered as a contribution receivable in the financial statements as at 31 December? Based on our experience, most auditors would treat this contribution as a contribution receivable in the 31 December financial statements under current practice.

Scheme Amendments Effective After the Balance Sheet Date

Our members believe that all scheme rules adopted and effective on or before the balance sheet date should generally be taken into account in measuring the actuarial present value of promised retirement benefits. However, the ED does not address the appropriate treatment of prospective benefit changes, such as:

- benefit provisions adopted on or before the balance sheet date and effective during the following 12 months;
- benefit provisions adopted on or before the balance sheet date but not effective until future years (i.e. after the following 12 months); and
- benefit provisions adopted after the balance sheet date but before the actual financial statement preparation date.

We would like to hear the HKSA's opinions on this issue.

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I would respectfully request that the HKSA consider our comments and would welcome the opportunity to further discuss our comments in a meeting between the HKSA and our committee members.

Sincerely,

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