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20 12 2006

ACCOUNTING STANDARD 15 (REVISED 2005)

AN ACTUARIAL OVERVIEW

Abstract

- *The new Accounting Standard relating to Employee Benefits known as Accounting Standard AS 15 [Revised 2005] has come into force with effect from April 01, 2006. This AS replaces the earlier accounting standard AS 15 titled as" Accounting for Retirement Benefits in the Financial Statements of Employers" issued in 1995.*
- *This new Accounting Standard [referred to as AS15(R) in this article] is a significant step towards harmonizing the Indian accounting and disclosure requirements for employee benefits with the corresponding International Accounting Standard [IAS19] on the subject.*
- *Having said that, it is pertinent to note that most of the clauses of the revised standard bristles with Actuarial terminologies and Actuarial methodologies. It also requires elaborate disclosures and method of presentation all of which requires Actuarial inputs. In this article, the authors have attempted to interpret and illustrate the following aspects of AS15R..*

  New Terminologies and Concepts
  Actuarial Treatment of Various Benefits
  Disclosure requirements with the help of eight exhibits.

***Key Words**:*

- *Present Value of Obligations, Discount Rate, Expected Rate of Return on Plan Assets, Fair Value of Plan Assets, Interest Cost, Current Service Cost, Actuarial Losses and (Gains), Past Service Cost, Vested and Non-Vested Benefits, Curtailments and Settlements, Termination Benefits, Long Term and Short Term Compensated Absences, Transitional Liability.*

I INTRODUCTION:

AS15 (Revised 2005) hereinafter referred to as AS15R dealing with treatment of Employee Benefit Schemes [EBS] has come into effect in respect of accounting periods commencing on or after 1ST APRIL, 2006. It differs widely from its predecessor AS15 (1995) in the matter of coverage / scope / treatment / presentation / disclosures. Pre-revised AS15 (1995) covered only Retirement Benefits, while AS15R covers the entire gamut of employee benefits. Its scope includes short-term employee benefits, post-employment benefits, other long term employee benefits, termination benefits, but excludes-equity compensation benefits. It is closely aligned to the International Accounting Standard (IAS) 19 for most parts the major difference being in the method of recognition of Actuarial loss/ (gain) and Transitional provisions. AS15R has introduced certain new terminologies and concepts which were not there in AS15. These are explained in the following sections. The numbers within brackets refer to appropriate paragraphs of AS15 R

II NEW TERMINOLOGIES/ CONCEPTS

1. PRESENT VALUE OF OBLIGATIONS (PVO): (Paras 65 – 66)

This refers to actuarial liability as we understand it now. PVO is the present value of the benefits payable on exit viz. normal retirement or death or resignation or earlier retirement. While computing this we take into account future projected salary, but service up to valuation date only. This is known as Projected Unit Credit Method. It considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up final obligation.

2. DISCOUNT RATE: (Paras 78 – 82)

This is the rate used to discount post-employment benefit obligations (both funded and unfunded). This is not to be based on yield on Invested Assets but determined by reference to market yields [as on the relevant balance sheet date] of Government Bonds of term which is equivalent to estimated term of the benefit obligations. This is arrived at by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payment. This is a new concept as for the first time the discount rate has been de-linked from the yield on invested assets.

3. EXPECTED RATE OF RETURN ON PLAN ASSETS: (Paras 107 – 109)

This is a new concept and refers to average rate of earning [average investment earnings rate] expected on the funds invested or to be invested to provide for the benefits included in the PVO. This rate is used for determining the expected return on Plan Assets which is determined by taking the value of Plan Assets at the beginning of the year and adjusting it for the movements in the Plan assets during the course of the year. This `Expected Return on Plan Assets' plays a part in determining `Actuarial Loss/ (Gain)' and also in determining the `Expense Recognized in the Statement of Profit and Loss'.

4. FAIR VALUE OF PLAN ASSETS: (Paras 100 – 102)

Fair Value in this context is defined as the amount at which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. Where no market price is available, fair value is estimated by discounting expected future cash flows. All Plan Assets are to be valued at its `Fair Value'. This is at variance with the current practice of valuing Plan Assets at cost.

5. INTEREST COST: (Para 82)

This arises because the benefits are one period closer to settlement. This is a new concept and it is determined by multiplying the `Discount rate' by `PVO' at the beginning of the year after adjusting the same for any material changes in the obligation.

6. CURRENT SERVICE COST: (Para 64 – 67)

This refers to Actuarial present value of benefits attributed by the Plan's benefit formula to services rendered by the employees during the Inter-Valuation Period. The service cost component is conceptually the same for an unfunded plan as well as for a funded one. While computing the same, projected future salaries are taken into account.

7. ACTUARIAL LOSSES AND (GAINS): (Paras 92 – 93)

This refers to changes in the amount of either the PVO or Plan assets or both resulting from [a] experience being different from than that assumed or [b]changes in assumptions between two valuation dates. In other words the actuarial losses and (gains) can arise on account of [a] Actual mortality / attrition rates and/or salary escalation rates being different from the corresponding actuarial assumptions; [b] The differences between actual return on Plan Assets and expected return on Plan Assets [c] Changes in Actuarial Assumptions relating to Mortality / Attrition Rate / Rate of salary escalation / discount rate between two valuation dates.

8. PAST SERVICE COST (VESTED AND NON-VESTED BENEFITS) (Paras 94-97)

Past Service Cost arises when an enterprise introduces a defined benefit plan or makes changes to an existing Plan. This may lead to changes in the present value of PVO for employees' service in prior periods resulting in the current period. The benefits may be vesting or non-vesting or a combination of both. By "vesting" we mean that the payment of benefits does not depend upon employee putting in further years of service. Conversely by "non-vesting" we mean that granting of benefits depend upon an employee completing a certain minimum service which he has not have completed as on the valuation date. AS15R provides that in respect of benefits which are already vested past service cost should be recognized immediately. If the benefits remain non-vested as on valuation date, past service cost should be recognized as an

expense on a straight line basis over the average period until the benefits become vested.

9. CURTAILMENTS AND SETTLEMENTS: (Paras 110 – 116)

Curtailment arises when there is a material reduction in number of employees say due to the closure of a unit. It may also arise where a benefit plan is amended or suspended. A settlement occurs when an obligation is settled say by paying a lump sum amount and the plan ceases to exist. Losses / (gains) arising on curtailment and settlements are to be recognized immediately.

10. TERMINATION BENEFITS: (Para 133 – 138, 146)

This refers to payments / provision for benefits made to employees when their services are terminated. It may also include enhancement of retirement benefits. Voluntary Retirement Schemes will fall under this category.

Termination benefits are to be recognized immediately. However where an enterprise incurs expenditure on termination benefits before March 31, 2009, it may be deferred over the pay-back period but not beyond April 01, 2010.

III. DISCLOSURES: (Paras 119 – 125)

AS15[R] requires elaborate disclosures relating to[a] Actuarial Assumptions, [b] Reconciliation of PVO at the beginning and end of the period, [c]Fund Movements, [d]Computation of liability to be recognized in balance sheet and [d] Break-up of `expense' in the profit and loss account.
These disclosures are illustrated using a numerical example in the following eight exhibits. It needs to be noted that while these exhibits use the terminologies consistent with AS15R and provides all the information required therein, they are not exactly in the same formats as prescribed by AS15[R] for disclosure in the final statements . Put differently these exhibits are meant to provide a better understanding of the terminologies used and illustrate the linkages between the disclosures. The notes following these exhibits are intended to provide further clarity on the terminologies used in these exhibits.

KEY ASSUMPTIONS:	As of	As of
As of	**31 03 2005**	**31 03 2006**
Mortality Table	Indian Assured Lives Mortality [1994-96][modified]Ultimate Table	Indian Assured Lives Mortality [1994-96][modified]Ultimate Table
Attrition Rate	5.00%	5.00%
Discount Rate	6.50%	6.50%
Rate of Increase in Compensation Levels	6.00%	6.00%
Rate of Return on Plan Assets	6.50%	6.50%
Expected Average Remaining Working Lives of Employees (years)	21	20

EXHIBIT I

MORTALITY: [Para 74]

Indian Assured Lives Mortality [1994-96][modified]Ultimate Table is widely used for setting the mortality assumption. This table can be tailored to be consistent with the historical mortality experience of an enterprise. It needs to be noted that actuarial liability is not very much sensitive to mortality variations

ATTRITION RATE: [Para74]

This refers to exits other than death. Resignation / ill-health retirements / voluntary retirement come under this category. A multiple decrement table is constructed taking into account all forms of exit. This table gives probability of exit at each age and at the normal retirement age. This will vary from industry to industry and within industry from company to company. Generally software companies experience a very high attrition rate. Attrition rate is fixed by the enterprise.

DISCOUNT RATE [Paras 78 – 81]

This is based on market yield at the balance sheet date on government bonds of a term consistent with future term of the employees as already explained.

RATE OF RETURN IN COMPENSATION PLANS [Paras 83-91, 120l]

This is estimated by the enterprise taking into account inflation, seniority, promotion and demand in employment market, past history of increasing benefit and other relevant factors.

RATE OF RETURN ON PLAN ASSETS [Paras 107-109]

As already been explained, this refers to average investment earnings rate on funds invested or to be invested to provide for the benefits included in PVO. The manner of computing this rate by the enterprise and the quantum of expected returns is illustrated in the example given under Para 109.

EXHIBIT II:

CHANGES IN PRESENT VALUE OF OBLIGATIONS :		
As of	**31 03 2005**	**31 03 2006**
Present Value of Obligation as at the beginning of the year	6,000,000	7,500,000
Interest Cost	370,500	461,500
Past Service Cost [Non vested Benefits]	----	----
Past Service Cost [Vested Benefits]		
Current Service Cost	2,000,000	2,500,000
Benefits paid	(600,000)	(800,000)
Actuarial (gain)/ loss on obligations	(270,500)	338,500
Present Value of Obligation as at the end of the year	7,500,000	10,000,000

This exhibit reconciles opening PVO with the closing PVO splitting the difference into its various components.
The equation is:

PVO at the beginning of the year
\+ Interest cost
\+ Current service cost
\+ (benefits paid)
\+ Actuarial (gain) / loss on obligation
= PVO at the end of the year

EXHIBIT III:

CHANGES IN THE FAIR VALUE OF PLAN ASSETS		
As of	**31 03 2005**	**31 03 2006**
Fair Value of Plan Assets at the beginning of the year	5,000,000	6,250,000
Acquisition Adjustments	----	----
Expected Return on Plan Assets	354,250	445,250
Contributions	1,500,000	2,000,000
Benefits Paid	(600,000)	(800,000)
Actuarial Gain /(loss) on Plan Assets	(4,250)	54,750
Fair Value of Plan Assets at the end of the year	6,250,000	7,950,000

EXHIBIT IV:

FAIR VALUE OF PLAN ASSETS		
As of	**31 03 2005**	**31 03 2006**
Fair value of plan asset at the beginning of year	5,000,000	6,250,000
Acquisition Adjustments	-----	----
Actual return on plan assets	350,000	500,000
Contributions	1,500,000	2,000,000
Benefits Paid	(600,000)	(800,000)
Fair value of plan assets at the end of year	6,250,000	7,950,000
Present Value Obligation at the end of year	7,500,000	10,000,000
Funded Status	(1,250,000)	(2,050,000)

These two exhibits reconcile opening Fair Value of Plan Assets with the corresponding closing Fair Value splitting the difference into its various components. Table III also brings out the Actuarial loss / (gain) on Plan assets.

EXHIBIT V:

ACTUARIAL GAIN / LOSS RECOGNIZED		
As of	**31 03 2005**	**31 03 2006**
Actuarial gain/(loss) for the year - Obligation	270,500	(338,500)
Actuarial gain/(loss) for the year - Plan Assets	(4,250)	54,750
Total (gain) / loss for the year	(266,250)	283,750
Actuarial (gain) / loss recognized in the year	(266,250)	283,750
Unrecognized actuarial (gains) / losses at the end of year	0	0

This exhibit sums up Actuarial Losses / (gains) on (i) obligation and (ii) Plan Assets. All losses / (gains) have to be recognized immediately except non-vested benefit of past service cost, if any.

EXHIBIT VI:

THE AMOUNTS TO BE RECOGNIZED IN BALANCE SHEET AND STATEMENTS OF PROFIT AND LOSS		
As of	**31 03 2005**	**31 03 2006**
Present Value of Obligation as at the end of the year	7,500,000	10,000,000
Fair Value of Plan Assets as at the end of the year	6,250,000	7,950,000
Funded Status	(1,250,000)	(2,050,000)
Unrecognized Actuarial (gains) / losses	0	0
Net Asset / (Liability) Recognized in Balance Sheet	1,250,000	2,050,000

This exhibit shows the method of computation of liability to be recognized in Balance Sheet.
The equation is:

PVO at the end of the year
- Fair Value of Plan Asset
- Unrecognized Actuarial Losses / (gains) if any
= Liability to be recognized in the Balance Sheet

EXHIBIT VII:

EXPENSE RECOGNIZED IN THE STATEMENT OF PROFIT AND LOSS		
As of	**31 03 2005**	**31 03 2006**
Current Service Cost	2,000,000	2,500,000
Past Service Cost	----	----
Interest Cost	370,500	461,500
Expected Return on Plan Assets	(354,250)	(445,250)
Curtailment Cost / (Credit)	----	----
Settlement Cost / (Credit)	----	----
Net actuarial (gain)/ loss recognized in the year	(266,250)	283,750
Expenses Recognized in the Statement of Profit & Loss	1,750,000	2,800,000

This exhibit shows the various components of `Expense' to be recognized in the Profit and Loss statement.

The equation is

Current Service Cost
\+ Interest cost
\+ (Expected return on Plan Assets)
\+ Net actuarial (gain) / loss recognized
= Expense recognized Profit & Loss Statement

EXHIBIT VIII:

M0VEMENTS IN THE LIABILITY RECOGNIZED IN THE BALANCE SHEET		
As of	**31 03 2005**	**31 03 2006**
Opening Net Liability	1,000,000	1,250,000
Expense as above	1,750,000	2,800,000
Contribution paid	(1,500,000)	(2,000,000)
Closing Net Liability	1,250,000	2,050,000

This exhibit illustrates an alternate method of arriving at liability to be recognized in Balance Sheet and serves the purpose of a cross check.

IV. OTHER DISCLOSURES:

a) Major categories of Plan Assets as a percentage of total plan assets viz. Government of India Securities, High Quality Corporate Bonds, Equity Shares, Property, Funds managed by Insurers, Special Deposit Scheme etc. (Para 120(h))
b) A narrative description of basis used to determine overall expected rated return on assets (120(j)
c) Investments in the sponsoring entity's financial instruments or self occupied properties. (210(l))
d) Medical cost trend rates sensitivity analysis thereof (Para 120(m))
e) Key historic information over a five year period and best estimate of contributions expected to be paid for the ensuing year (Para 120 (n, o))
f) Experience adjustments arising on plan liabilities (para 120(n)). This involves repeated Actuarial Valuations on existing as well as previous parameters. This will enable us to split Actuarial gains and losses into
g) experience adjustments (effects of difference between the previous actuarial assumptions and what has actually occurred) and
h) effects of changes in actuarial assumptions. For further analysis (b) itself can be split into effect of changes due to variation in actuarial assumptions pertaining to

i) Discount rate
ii) Salary escalation
iii) Other, if any

This information needs to be given for the past four years. However when we do valuation as on 31 03 07 only one previous figure under AS15R i.e. as on 01 04 06. will be available. Previous figures which are as under AS15 will not be appropriate for comparison. Accordingly these figures are to be generated over a future period only. The idea behind such comparison is to find out whether unusually heavy actuarial losses or gains are reported as a result of experience which will again indicate whether actuarial assumptions are proper or too conservative or too aggressive.

V. OTHER LONG TERM EMPLOYEE BENEFITS (Paras 127-131)

This refers to long term compensated absences, long term disability benefits, deferred compensation, profit sharing / incentive bonus going beyond twelve months, jubilee or other long service benefits. Incentive bonus for continuity in service offered generally by software companies come under this heading. All these benefits require Actuarial Valuation.

In the case of 'other long term employee benefits' if any non-vested past service cost arises as a result of introduction of or changes to the Plan, it should be recognized immediately and the benefit of amortization as in `post employment benefits' is not there (para 128)

In the matter of disclosures, no specific disclosures are indicated but all the same the components of the 'liability recognized' and 'expense recognized' should be identified and disclosed (paras 129 and 130)

VI COMPENSATED ABSENCES

While AS15 [1995] uses the term 'Leave Encashment Benefit' to refer to leave encashment on retirement , there is no explicit reference to this term in AS15R. Instead AS15 R uses the term 'Compensated Absence' as an umbrella concept to capture

i) Leave encashment payable on separation
ii) Leave encashment payable during service
iii) Availment of leave (though no cash flow is involved)

Again 'Compensated Absence' is divided into two components: 'Long Term Compensated Absence' and 'Short Term Compensated Absence'.

Short Term Compensated Absence refers to such leave-related benefits falling due within twelve months of the valuation date. This is again split into two constituents: accumulating and non-accumulating. 'Non- Accumulating Compensated Absence' refers to that part of the credited leave which lapses on the valuation date without resulting in any future liability. On the other hand, 'Accumulating Compensated Absence' refers to that part of the credited leave which can be carried forward up to twelve months from the valuation date. Although Actuarial Valuation is not needed to value this component, it needs to be valued [as on the valuation date] taking into account the proportion of that leave which is expected to be availed during the next twelve months. The mechanics of this valuation is explained in Para 15 of AS15R through an example.

On the other hand Long Term Compensated Absences which include leave encashment benefit both on retirement & during service as also availment needs Actuarial Valuation

Based on the company's experience, the leave on credit has to be split up into three proportions. This proportion has to follow the LIFO (Last in First Out) approach. This means any leave availed or encashed after valuation date will first be taken from fresh accruals and after exhausting the same the leave on credit will be utilized. The components of pay for the purposes of leave encashment would be as per company's rules while for availment it has to be based on cost to company (CTC).

As regards sick leave (if applicable) generally no encashment is allowed and sick leave not availed lapses after the ceiling is reached or on exit. This benefit has to be valued taking into account the probability of a portion of this leave lapsing without giving rise to any liability.

A frequently asked question is how leave availed which does not involve a cash flow can give rise to a liability. Although when leave is availed the enterprise pays salary for that particular day without getting any economic benefit in return, the fact is that this economic benefit has already been derived [as on the valuation date] through the services rendered by the employee before that date. Thus a

liability has already arisen but not emerged. Based on accrual principle this liability as on valuation date has to be recognized.

It needs to be noted that while valuing long term leave (or for that matter any other long term benefit) liability arising within 12 months [from the valuation date] also needs to be actuarially valued and not treated as a short term benefit [Para 67].

VII. SHORT-TERM EMPLOYEE BENEFITS [Paras 8 – 16]

These include wages, salaries, and short-term compensated periods of absence, death-in-service benefits and profit sharing plans [including bonus plans] payable not more than twelve months after the balance sheet date.

The enterprise must measure, recognize and disclose the cost as the undiscounted amount of such benefits expected to be paid after the close of the accounting period in exchange for services rendered during that period.

VIII. NON-VESTED BENEFITS (Paras 67,129)

These refer to non-vested benefits pertaining to an existing benefit scheme. These benefits require a treatment different from what applies to non-vested benefits pertaining to past service cost [which was covered in our discussion on past service cost]. For example when service is less than five years a non-vested gratuity benefit arises. There is no provision for spreading this liability over the vesting period. The valuation has to be conducted normally taking into account service up to valuation date and the allowance made for attrition rate is supposed to take care of exits before the vesting date.

Employee Incentive Scheme which is generally popular with software companies contain a non-vested element and require special treatment. A typical scheme may provide payment of lump sum benefits at the end of six months, twelve months etc., from the date of inception. Here the vested portion is computed taking the pro rata benefit applicable up to the valuation date and the same is actuarially valued taking into account; inter alia, the attrition rate.

IX. EXEMPTED PROVIDENT FUNDS (Para 26)

Certain Provident Funds administered by employers may have an obligation to credit interest at a rate declared by the Government irrespective of what the fund earns. This means a guarantee of a specified return and the provisions of Para 26[b] are attracted which in turn implies the need for actuarial valuation. What needs to be actuarially valued is the differential in interest earnings as a result of difference between guaranteed rate of interest and actual rate of interest being earned. The differentials will relate to future term of existing liabilities as on valuation date. Effectively this interest rate guarantee takes the form of an interest rate option- an interest rate floor- that can be valued using the Black-Scholes model for valuing a put option. Alternatively we can value the guarantee using a stochastic modeling approach.

X. SCHEMES FUNDED WITH INSURANCE COMPANIES – WHAT SUCH ENTERPRISES SHOULD DO (Paras 40 – 43, 49)

Here AS15R makes a clear distinction between `Financial Decision' which means paying premium under an Insurance Policy or making contribution to a Self-administered fund and `Accounting Provision' which refers to provision to be made in the Accounts. While `Financial Decision' will be influenced by various factors such as profitability, taxation and cash flow, as regards `Accounting Provision' the new standard specifies that the premium paid to the Insurer forms part of Plan Assets and for making Accounting Provision the services of a qualified Actuary are to be utilized.

This will have a major impact on such enterprises since it is no longer possible to treat the amount quantified by Insurer as provision to be made in the accounts. They have to restate their Actuarial liability on the date of adoption both under AS15 (1995) and AS15R

XI. PARTICULARS NEEDED FOR ACTUARIAL VALUATION.

The particulars to be furnished by the Enterprise for Actuarial Valuation have increased considerably and at the minimum the following particulars are to be furnished for valuation of Gratuity and Long Term Compensated Absence Plans. The particulars needed for valuation of other benefits will depend on the type of the plan and can be indicated after a study of the plan.

a) Name and address of the enterprise and name and contact numbers of authorized person.
b) A summary of the benefits to be valued and the valuation date.

c) Age of retirement and amount of ceiling, if any, on Gratuity.
d) Employee particulars indicating Name / Date of Birth / Date of joining / Salary applicable to the Plan / CTC / Number of leave days to credit.
e) Movement in the Fund as follows:

Opening balance at the beginning of the year (valued using the fair value approach)

+ Contribution
+ Actual Return on Assets
- Benefits paid
= Closing balance as on valuation date

f) Amount of leave encashment paid on retirement / during service.
g) Leave availment / encashment pattern. For this purpose for each employee information about opening balance plus leave accrued minus leave encashed minus leave availed equal to closing leave balance.
h) Major categories of Plan Assets such as Government Securities, Corporate Bonds classified as per different credit rating categories, equities, real estate etc. and their percentages of the total invested assets

i) Expected rate of return on Plan Assets computed in the manner specified in paragraphs 107-109 of AS15R
j) Salary escalation rate taking into account inflation, seniority, promotion, past practice of increasing benefits etc. as per paragraphs 83 – 91 of AS15R.
k) Employee attrition rate.

XII. TRANSITIONAL PROVISIONS (Paras 143 – 145)

As on date of first adoption, two valuations have to be conducted one as per AS15R and another as per AS15. From the present value of obligation so arrived at as per AS15R, fair value of plan assets as on the date of adoption will be deducted to arrive at the transitional liability. The difference between this transitional liability (as adjusted by related tax expense) and the liability that would have been recognized at the same date as per pre-revised AS15 should be adjusted against opening balance of revenue reserves and surplus.

XIII. IMPACT OF TRANSITION:

The Transition from AS15(1995) to AS15[R] will impact seriously the financials of an Enterprise due to various reasons already explained viz.

1) Providing for all employee benefits under AS15R as against just retirement benefits under AS15[1995].
2) Providing for short term compensated absences as well.
3) Scope of Long Term compensated Absences being enlarged from merely leave encashment payable on retirement to be encashment during service also and even on availment.

4) A prescriptive basis for discount rate and salary escalation which will tend to substantially increase the transitional liability and also liability in subsequent years.
5) Providing for valuation of Plan Assets on fair value basis as against cost basis as under AS15[1995]. Fair values tend to be more volatile. Market downturns can cause a drop in “fair values’ which in turn can result in higher contributions [and higher accounting provisions] to maintain the funding ratio at a targeted level.

The impact will operate in two ways. First it will have an initial impact as the difference between transitional liability as on the date of adoption and corresponding liability under previous AS15[1995] will have to be adjusted against opening reserves. Only the impact is shifted from profit and loss account to reserves. The depletion of reserves will be particularly serious for Banks as it will affect then capital adequacy ratio particularly when Basel-II norms are about to be

implemented. In addition to initial impact there will be a continuing impact on the financials over the future years again due to reasons already cited. This continuing impact will all the more be severe due to the fact that all actuarial losses have to be recognized immediately.

These concerns have been addressed in IAS 19 which is the main source and inspiration for the AS15[R] and in this regard it is worthwhile comparing the provisions in this regard of AS15[R], IAS 19 and FAS 87 [US GAAP].

Accounting Standard	**IAS 19**	**US GAAP FAS 87**	**AS15 [revised 2005]**
Treatment of difference between Transitional liability and liability as on same date as per earlier standards on date of adoption	Option to recognize immediately or recognize over the future 5 years.	Option to recognize immediately or over future term of the service of the employees but restricted to 15 years from1989.	To be adjusted against opening balance of revenue reserves
Actuarial gains/losses	Either: • Spread over working life time outside optional 10% corridor (straight line method) or faster. Spreading not possible if no active members Or • Immediate recognition in the statement of profit and loss. Or • Immediately outside the profit and loss in a statement of changes in equity titled 'statement of recognized income and expense'.	Spread over working lifetime outside optional 10% corridor (straight line method) or faster. Spread using average pensioner lifetime if no active members.	Immediate Recognition.

AS15R does not provide mechanisms for alleviating the financial impact of the transition as in the other International standards. It only shifts the impact from the Income Statement to the Balance Sheet [through change in Reserves] in the year of transition and retains the impact on the Income Statement in the subsequent years. While the logic behind provision for amortization of Transitional impact in IAS 19 and US GAAP are clear, corresponding logic behind amortization of actuarial loses requires some explanation.

Actuarial losses or gains during a year arise because [a] the assumptions made about discount rate and salary escalation rate can and often are different from the actual experience during the year; and/or [b] there can be changes in the Actuarial Assumptions between the valuation and the immediately preceding valuation. Such an Actuarial loss is at best an estimate and not an exact figure. It is better expressed as a range instead of one single figure and a range of 10% either way reflects correctly the realistic position of losses.

AS15(R) treats the actuarial loss on par with any other prior period item and requires the accounting treatment for such losses to be in line with AS5 which deals with prior period items. This argument needs to be reexamined in light of the fact that the actuarial loss is only an estimate based on current assumptions about future course of events. For example, if long-term Government bond rates were to rise from their current levels, then there is a strong likelihood that the actuarial loss (relating to the past events) may transform into an actuarial gain in the future. Thus there is a strong case for amortization of actuarial losses outside 10% corridor. It is worthwhile to note in this regard that representations have been made to ICAI in this regard and a committee has been appointed to consider the same.

XIV. SUMMARY

To sum up AS15R calls for [a] an in-depth analysis of all employee benefits which are in vogue in an enterprise and [b] delineate those benefits, which fall under the purview of AS 15 [R] such as:

(a) Short Term Benefits
(b) Post Employment Benefits
(c) Other Long Term Benefits
(d) Benefits which fall under the other provisions of AS15R

While short-term benefits do not require Actuarial Valuation, post-employment benefits& other long-term benefits require Actuarial Valuation. Benefits which fall under the scope of [d] is a mixed bag - some benefits such as post-retirement medical plan, exempted provident fund plans which carry an interest rate guarantee [provided by the employer], Leave Travel Concession and Relocation Allowance [to home town on retirement] etc. require actuarial valuation.

To conclude, it is fair to say that facilitating a smooth transition from AS 15[1995] to AS 15R will require upfront investment of time and efforts on the part of all stakeholders associated with this process – the Actuary, the Auditor, the CFO, the HR Head and the CEO.

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