Institute of Actuaries of India
www.actuariesindia.org

the Actuary INDIA

INDIAN ACTUARIAL PROFESSION
Serving the Cause of Public Interest

THE MAGAZINE OF THE INSTITUTE OF ACTUARIES OF INDIA

VOL. VII • ISSUE 4 APRIL 2015 ISSUE Pages 28 • ₹ 20

For Private Circulation Only

the Actuary INDIA
www.actuariesindia.org

Chief Editor
Sunil Sharma
Email: sunil.sharma@kotak.com

Editors
Kollimarla Subrahmanyam
Email: ksmanyam52@ymail.com

Raunak Jha
Email: Raunak.Jha@CignaTTK.in

Puzzle Editor
Shilpa Mainekar
Email: shilpa_vm@hotmail.com

Librarian
Akshata Damre
Email: library@actuariesindia.org

COUNTRY REPORTERS

Krishen Sukdev
South Africa
Email: Krishen.Sukdev@iac.co.za

Frank Munro
Srilanka
Email: Frank.Munro@avivandb.com

Anshuman Anand
Indonesia
Email: Anshuman.Anand@aia.com

John Laurence Smith
New Zealand
Email: Johns@fidelitylife.co.nz

Rajendra Prasad Sharma
USA
Email: rpsharma0617@yahoo.com

Nauman Cheema
Pakistan
Email: info@naumanassociates.com

Andrew Leung
Thailand
Email: andrew.leung@iprbthai.org

Vijay Balgobin
Mauritius
Email: Vijay.Balgobin@sicom.intnet.mu

Kedar Mulgund
Canada
Email: kedar.mulgund@sunlife.com

For circulation to members, connected individuals and organizations only.

CONTENTS

Disclaimer : Responsibility for authenticity of the contents or opinions expressed in any material published in this Magazine is solely of its author and the Institute of Actuaries of India, any of its editors, the staff working on it or "the Actuary India" is in no way holds responsibility there for. In respect of the advertisements, the advertisers are solely responsible for contents and legality of such advertisements and implications of the same.
The tariff rates for advertisement in the Actuary India are as under:

Back Page colour ₹ 38,500/-	Full page colour ₹ 30,000/-	Half Page colour ₹ 20,000/-

Your reply along with the details/art work of advertisement should be sent to library@actuariesindia.org

ENQUIRIES ABOUT PUBLICATION OF ARTICLES OR NEWS
Please address all your enquiries with regard to the magazine by e-mail at library@actuariesindia.org.
Kindly do not send it to editor or any other functionaries.

Printed and Published monthly by Gururaj Nayak, Head - Operations, Institute of Actuaries of India at ACME PACKS AND PRINTS(INDIA) PRIVATE LIMITED, A Wing, Gala No. 55, Ground Floor, Virwani Industrial Estate, Vishweshwar Nagar Road, Goregaon (E), Mumbai-63. for Institute of Actuaries of India : 302, Indian Globe Chambers, 142, Fort Street, Off D N Road, Near CST (VT) Station, Mumbai 400 001. • Tel +91 22 6784 3325 / 6784 3333 Fax +91 22 6784 3330 • Email : library@actuariesindia.org • Webside : www.actuariesindia.org

IND AS

Ind AS is going to be applicable soon and this will be a step in direction of converging with IFRS. It will be a boost to both Accounting as well as Actuarial profession it is worthwhile to see how one can cope with the requirements of IND AS 19 which applies to the employee benefit liability accounting.

Under AS 15 the charge for the year also include change due to the assumed cost not matching with the actual cost due to actuarial gain/loss accounted in the Income Statement (P&L), Ind AS 19 puts burden on the actuaries to accept and choose assumptions provided by the employer which may not deviate substantially from the actual scenario, if it happens than the stake holder will not be able to appreciate proper charge for the retirement benefit which is accounted in the revenue (P&L) account as any deviation in the projected cost vis-à-vis the actual cost (actuarial gain/loss) is not taken as a charge for the year but is taken directly to the Other Comprehensive Income (OCI).

This will entail more discussion with the companies and more analysis of the trend will have to be done so as to arrive at an assumptions which may give a true cost year on year.

As seen in the developed countries, India will also need army of student analyst and qualified Actuaries who can give justice to the requirement of the accounting standard bestowed on our profession.

Stating all these, let us look at the provisions and other modalities of Ind AS 19.

1) **Purpose:** - As per Notification of MCA dated 16th February 2015, MCA have given roadmap for applicability of Ind AS to various companies. These standards are prepared in line with International Financial Reporting standards, so increase the transparency and comparability in financial statements of various companies. Ind ASs are modified version of IFRS/IAS with some carve outs as per Indian economic scenarios.
2) **Adoption Date:** - As per MCA roadmap

i) Any Company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015 with comparative figures of 31st March, 2015, or thereafter.

ii) Listed & Unlisted Companies with Net worth 500 Crores or more shall follow Ind AS from accounting period starting on or after 1st April, 2016 with comparative figures of 31st March, 2016.

iii) Listed Companies with Net worth less than 500 Crores & Unlisted Companies having net worth 250 Crores or more but less than 500 Crores shall follow Ind AS from accounting period starting on or after 1st April, 2017 with comparative figures of 31st March, 2017.

Applicability: - will apply to holding, subsidiary, joint venture or associate companies also. Once Ind AS is applicable company have to prepare standalone as well as consolidated standard as per Ind AS only.

Provided that companies whose securities are listed or are in the process of being listed on SME exchange are not required to comply with Ind AS mandatorily as per sub clause (ii) & (iii) above, though they can comply with Ind AS voluntarily as per sub clause (i) above.

Exemption:-The insurance companies, banking companies and non-banking finance companies shall not be required to apply Indian Accounting Standards (Ind AS) for preparation of their financial statements either voluntarily or mandatorily.

Companies to which Ind AS is not applicable should have to follow Accounting Standards specified in Annexure to the Companies (Accounting Standards) Rules, 2006.

3) **Significant changes in Ind AS 19 compared to AS 15:-**

a) Expected return on assets will be same as Discount rate used for valuation of obligation and Net interest cost to be calculated on Net Liabilities/ assets.

b) Discount Rate should be used with reference to market yields at the end of reporting period on government bonds. However, Subsidiaries, associates, joint ventures and branches domiciled outside India market yields on high quality corporate bonds, but if no deep market than use government bonds.

c) For Post-retirement benefit plans (example Gratuity, Pension & PRMB) Actuarial Gain/ Loss will be taken to Other Comprehensive Income and not to be reclassified into Profit & Loss in subsequent period whereas AS 15 required it to be recognized in Profit & Loss.

d) For Other long term benefits (example compensated absences & long service award) Actuarial gain/ loss continues to be recognized in Profit & Loss. Hence, recognition criteria remain same in Ind AS 19 as was in AS 15.

e) Past service cost to be recognized in Profit & Loss in year of occurrence. Ind AS 19 doesn't differentiate between vested & non-vested past service cost recognition.

Recognition and measurement of post-employment benefits:-

(Amounts in INR)

EXAMPLE GRATUITY/ PENSION/ POST-RETIREMENT MEDICAL BENEFIT		
	AS 15	Ind AS 19
Valuation Assumptions (Opening)		
Discount Rate	9.25%	9.25%
Expected Return on Assets	*8.70%*	*9.25%*
Salary Escalation	6.50%	6.50%
Valuation Assumptions (Closing)		
Discount Rate	8.00%	8.00%
Expected Return on Assets	*8.70%*	*8.00%*
Salary Escalation	6.50%	6.50%
Change in PV of Defined Benefit Obligation		
Opening PV of Define Benefit Obligation	1,000	1,000
Interest cost	93	93
Current service cost	125	125
Benefit Paid from fund	(28)	(28)
Actuarial (Gain)/ Loss	110	110

	AS 15	Ind AS 19
Closing PV of Defined Benefit Obligation	**1,300**	**1,300**
Change in the Fair Value of Plan Assets		
Opening Fair value of Plan Assets	900	900
Expected return on assets	*78*	*83*
Benefit paid	(28)	(28)
Actuarial Gain/ (Loss)	*(10)*	*(15)*
Closing Fair value of Plan Assets	**940**	**940**
Amount Recognized in Profit & Loss		
Interest cost	93	93
Current service cost	125	125
Expected Return	(78)	(83)
Actuarial (Gain)/ Loss on Obligation	*110*	-
Actuarial (Gain)/ Loss on Assets	*10*	-
Total Expense recognized in Profit & Loss	**260**	**135**
Amount Recognized in Other comprehensive Income		
Actuarial (Gain)/ Loss on Obligation	-	*110*
Actuarial (Gain)/ Loss on Assets	-	*15*
Total Amount recognized in OCI	-	**125**
Amount Recognized in Balance Sheet		
Closing PV of Defined Benefit Obligation	(1,300)	(1,300)
Closing Fair value of Plan Assets	940	940
Net (Liability)/Asset Recognized in the Balance Sheet	**(360)**	**(360)**

Recognition and measurement of other long term benefits:-

(Amounts in INR)

Example Compensated absences/ Long service award		
	AS 15	**Ind AS 19**
Valuation Assumptions (Opening)		
Discount Rate	9.25%	9.25%
Expected Return on Assets	*8.70%*	*9.25%*
Salary Escalation	6.50%	6.50%
Valuation Assumptions (Closing)		
Discount Rate	8.00%	8.00%
Expected Return on Assets	*8.70%*	*8.00%*
Salary Escalation	6.50%	6.50%
Change in PV of Defined Benefit Obligation		
Opening PV of Define Benefit Obligation	1,000	1,000
Interest cost	93	93
Current service cost	125	125
Benefit Paid from fund	(28)	(28)
Actuarial (Gain)/ Loss	110	110
Closing PV of Defined Benefit Obligation	**1,300**	**1,300**
Change in the Fair Value of Plan Assets		
Opening Fair value of Plan Assets	900	900
Expected return on assets	*78*	*83*
Benefit paid	(28)	(28)
Actuarial Gain/ (Loss)	*(10)*	*(15)*
Closing Fair value of Plan Assets	**940**	**940**
Amount Recognized in Profit & Loss		
Interest cost	93	93
Current service cost	125	125
Expected Return	(78)	(83)
Actuarial (Gain)/ Loss on Obligation	110	110
Actuarial (Gain)/ Loss on Assets	10	15
Total Expense recognized in Profit & Loss	**260**	**260**
Amount Recognized in Balance Sheet		
Closing PV of Defined Benefit Obligation	(1,300)	(1,300)
Closing Fair value of Plan Assets	940	940
Net (Liability)/Asset Recognized in the Balance Sheet	**(360)**	**(360)**

4) Effect on Disclosures (from view of Companies):-

a) Objectives: an explanation of the characteristics and risks associated with DB schemes and how the characteristics of the scheme may affect the amount, timing and uncertainty of the company's cash flows.

b) Characteristics: a description of the scheme benefits and any risks the scheme poses to the company, in particular unusual risks or concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg bonds, the plan may expose the entity to a concentration of bond market risk.

c) An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, to manage risk.

d) Cash flows: expected employer contributions over the coming year together with a description of the funding arrangements and the weighted average duration of the scheme.

e) Sensitivity of Assumptions: the significant assumptions used and the *sensitivity* of the value of the liabilities to changes in these assumptions, together with commentary on the methods used in the sensitivity analysis.

f) Analysis of the present value of the defined benefit obligation between vested benefits and accrued but not vested benefits.

g) An entity may disaggregate disclosure about plans showing one or more of the following features:

- different geographical locations
- different reporting segments.
- different funding arrangements (eg wholly unfunded, wholly or partly funded).

h) For Other long term benefits Ind AS 19 also doesn't require specific disclosures.

i) Five-year history of asset value, liabilities, surplus/ deficit and experience gains and losses is not required to be disclosed.

Change in Accounting Standard brings an ample opportunity to the Actuarial Profession and we need to get ready for this now.

ABOUT THE AUTHOR

Akshay Pandit

is a Partner in M/S. K. A. Pandit, he has more than 28 years of experience in Pension and Insurance field working in India and abroad. He is currently heading portfolio of Business Head and Head of General InsuranceDivision in firm.

akshay@ka-pandit.com