



ACTUARIAL STANDARDS BOARD

**Actuarial Standard
of Practice
No. 2**

**Recommendations for Actuarial Communications Related to
Statements of Financial Accounting Standards Nos. 87 and 88**

**Developed by the
Pension Committee of the
Interim Actuarial Standards Board**

**Adopted by the
Interim Actuarial Standards Board
April 1987**

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June 1987

TO: Members of the American Academy of Actuaries and Other Persons with an Interest in Actuarial Calculations with Respect to Statements of Financial Accounting Standards Nos. 87 and 88

FROM: Pension Committee of the Interim Actuarial Standards Board (IASB)

Enclosed is an IASB Actuarial Standard of Practice, *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*. It reflects the review by the IASB and its Pension Committee of comments received in response to an exposure draft issued in January 1987.

In reply to the exposure draft, there were twenty-one responses. In addition to responses from actuaries, responses were received from a large multinational corporation, the Financial Executives Institute, and the Financial Accounting Standards Board. The opinions expressed ranged from suggesting that existing standards sufficed and that the actuary's role is solely to technically calculate the numbers, to suggestions for significantly expanded disclosure. The responses were well thought out, and of help to the IASB.

By far the greatest number of comments were related to the sample disclosure, and to enumeration there of various items for which SFAS No. 87 results could be inappropriate. The IASB determined that the language should be made less negative in tone, and has made changes to reflect that. However, the IASB does not believe that this facet of the disclosure should be completely deleted, as some suggested. The IASB feels strongly that there is a great risk that incorrect judgments of benefit security and funding will be made from the SFAS No. 87 numbers, given their ready availability.

For example, plan participants might judge themselves to be adequately protected in the event of plan termination when this would not be true. Indeed, SFAS No. 87, ¶ 18 says, "The accumulated benefit obligation and vested benefit obligation provide information about the obligation the employer would have if the plan were discontinued." In fact, the IASB can envision many common circumstances where these items would be very bad indicators of the asset sufficiency in the event of plan termination, primarily because the calculations are on an "ongoing plan" basis, and because of the way in which the discount rate is selected. The IASB strongly believes that the profession's traditional role of protecting participants would be compromised if specific references to the inappropriateness of SFAS No. 87 numbers for this purpose were omitted. However, the other items listed were, in the IASB's opinion, more related to good consulting than to professional standards, so those were deleted.

Finally, the IASB incorporated SFAS No. 88 more directly into the proposed standard than it did in the exposure draft.

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ACTUARIAL STANDARD OF PRACTICE NO. 2

RECOMMENDATIONS FOR ACTUARIAL COMMUNICATIONS RELATED TO STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS NOS. 87 AND 88

1. Background—The Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards (SFAS) No. 87, *Employers' Accounting for Pensions*, and SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, in December 1985. They made major changes in the way pension information is determined and presented in employers' financial statements. Although much of the information required will have to be furnished by actuaries, the basis for those calculations is prescribed by the FASB.
2. Scope—Pronouncements of the FASB set forth required practices with respect to calculations for SFAS No. 87 and SFAS No. 88. The recommendations in this actuarial standard establish disclosure standards for actuarial communications with respect to SFAS No. 87 and SFAS No. 88.
3. Existing Standards—Interpretative Opinion 3 of the *Guides and Interpretative Opinions as to Professional Conduct* of the American Academy of Actuaries, and *Pension Plan Recommendation C*, "Pension Actuarial Communications," apply fully with respect to SFAS No. 87 and SFAS No. 88 calculations. (*Pension Plan Recommendation C* was superseded in 1988 by section 13, Pension Actuarial Communications, of Actuarial Standard of Practice No. 4, *Recommendations for Measuring Pension Obligations*.) In view of the number of potential indirect users of such calculations and the likelihood of significant variations from generally accepted actuarial principles and practices, the actuary should carefully evaluate what disclosure is appropriate for communications related to SFAS No. 87 and SFAS No. 88.
4. Disclosure—An actuarial communication for purposes of SFAS No. 87 and SFAS No. 88 must be identified as such. The results of calculations prepared for other purposes (e.g., funding, plan reporting, government requirements, plan terminations, etc.) are likely to be significantly different; the actuary should disclose this fact.
5. Disclosure of Exceptions—If the calculations conflict significantly with the actuary's understanding of SFAS No. 87 and SFAS No. 88, including conflict with respect to the assumptions utilized, that fact should be disclosed as part of the actuarial communication.

6. Sample Disclosure—In the absence of exceptions, application of SFAS No. 88, or other special circumstances, the following sample disclosure is suggested:

Actuarial computations under Statement of Financial Accounting Standards (SFAS) No. 87 are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of SFAS No. 87. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes, such as judging benefit security at termination or adequacy of funding for an ongoing plan.