

## FOREWORD

The accounting standard AS15 Employee benefits (revised 2005) has been effective from 1<sup>st</sup> Apr'06 and mandatory for all companies in India for accounting and disclosure of liabilities related to employee benefits. The Actuarial Practice Standard (APS 26) effective from 1<sup>st</sup> Jan'07 and its version 1.01 effective from 1<sup>st</sup> Jan''12 are applicable to all fellow members carrying out actuarial valuations of employee benefits.

There are many companies utilising services of an Actuary for valuation of employee benefits albeit actuarial service is not a binding requirement for implementation of AS 15. An attempt has been made by the Research department of the Institute of Actuaries of India early this year by conducting a survey in order to understand existing practices adopted by companies for

accounting and disclosure of employee benefits and also to understand their expectations on the subject of support and guidance required by them from an Actuary. The survey is responded to only by a small number of employers, however, it represented a fairly good cross section of Industries of different size.

The survey has lightened a relatively unexplored and highly potential area of service where our members can add a lot of value.

We hope you find this survey useful and please write to [vinodkumar@actuariesindia.org](mailto:vinodkumar@actuariesindia.org) if you have any feedback or ideas for further work in this space.

**M Karunanidhi**  
**President, Institute of Actuaries of India**

## MESSAGE

The Research department of the Institute of Actuaries of India has undertaken a survey early this year in order to understand practices and expectations of companies in India on implementation of Accounting Standard (AS) 15 Employee benefits (revised 2005). This assumed a lot of significance in view of role and involvement of an actuary in valuation of employee benefits and also in view of implementation of Actuarial Practice Standard (APS) 26 effective from 1<sup>st</sup> Jan'07 and APS version 1.01 effective from 1<sup>st</sup> Jan'12. The survey was responded by a small cross

sectional representation out of 872 targeted companies; however, it helped to derive some valuable insights about the largely unexplored area of the market for involvement of an actuary.

I am sure that, implementation of suggestions/ outcome of the survey will definitely be a bold step towards the right direction to help actuarial consultants to play a more dynamic and extended role in the valuation of employee benefits for companies in the days to come. I take this opportunity to thank Mr. Kulin Patel who has contributed for reviewing and shaping the survey report.

**Tania Chakrabarti**  
**Chairperson, Advisory Group on Research and Publications**

## A. Background

It has been more than 6 years since the Accounting Standard (AS) 15 *Employee Benefits* (revised 2005)- (referred as AS 15 (R) in the rest of the report) issued by the Council of the Institute of Chartered Accountants of India effective from 1<sup>st</sup> April 2006 which is mandatory for all companies for the accounting and disclosure of Employee Benefits.

*AS 15(R) was based on IAS 19 and differs in the treatment of actuarial gains and losses in a way that it should be recognized immediately in the profit and loss statement of the company. This essentially led Companies to use services of a Qualified Actuary for Actuarial valuation of Employee benefits. The Institute of Actuaries of India has issued Actuarial Practise*

## B. Objective

Main objective of the survey was to determine the needs of external stakeholders (mainly companies/clients) of the actuarial consulting profession, in the area of employee benefits, so that the IAI could look to provide further support to those actuaries and also educate external stakeholders on the topic of employee benefits (as it relates to the actuarial consulting profession).

The areas covered by the survey, conducted by Institute of Actuaries of India were to:

- a. Understand the current practises of companies on implementation of AS 15 (R)

*Standard 26 (APS 26) (version 1) and have made effective from 1<sup>st</sup> January 2007 and its version 1.01 effective from 1<sup>st</sup> January 2012 and applicable to any fellow member of the Institute of Actuaries of India carrying out such actuarial valuation under AS 15 (R).*

Terminologies like Actuarial assumptions, Actuarial valuation, Actuarial risk, Actuarial gain and loss and Actuarial techniques are extensively used in this prescription mainly in relation to valuation and accounting of employee benefits of long term nature.

The implications of implementation of AS 15 (R) is significant on company accounts and services by a qualified Actuary is essential for valuation of long term benefits, albeit AS 15 (R) referring it as a responsibility of the reporting enterprise.

- b. Understand levels of utilisation of Actuaries by Indian companies for their Actuarial valuation of employee benefits.
- c. Understand the awareness of companies on the role of actuaries and guidance notes applicable for discharging their duties
- d. Understand market requirements in respect of guidance and support from the Actuarial Profession
- e. Understand the scope for increased role to play in the market for implementing statutory and regulatory practises for Employee benefit reporting by Indian companies

## C. The Survey

The survey targeted identified senior executives of 872 companies, particularly CFO's. A summary of information of targeted companies, Industries, sub-industries and final respondents are available in Annexure-1.

Survey carried 20 questions and was administered through an external online survey tool; all the questions were structured in multiple choices except 4 questions (Annexure-III). The survey was kicked off on 20<sup>th</sup> Dec'12 and ran until 22 January 2013. The survey ended up with a final response count of 41 respondents only. This was despite repeated follow up and an extension of the end date from 15 January 2013.

In view of this, the findings need to be put into that context and may not be entirely representative of the 800+ companies.

The subject of Employee benefits and Actuarial reporting should be familiar to all senior level executives and so valid reason for not responding to the survey could be due to (this list is based on our perceptions and responses whilst following up for participation, it is not intended to be exhaustive but only indicative):

- a. interest level of such a survey where they may have perceived a lack of value for them in return
- b. Christmas and New Year period where there may have been period of leave as well as pre-occupation with quarter three closing of financials
- c. non-disclosure policy adopted by the Companies to respond to such surveys or
- d. distancing from disclosures that might lead to identifying companies who are not complying with Accounting Standards (AS 15) (Revised 2005), the aspect to be addressed by the Institute of Chartered Accountants of India.
- e. our survey may be one of many other requests and may not have been prioritised by target companies
- f. potential participants were familiar enough with the topic and so did not feel the need to respond
- g. The subject of AS 15 (R) and funding and accounting of employee benefits might have turned out to be a subject of internal activity for some companies without using actuarial services (possible at the smaller scale of companies)
- h. Disclosure of information in respect of funding and accounting is considered as confidential

## D. Key Findings from companies that participated in the survey

- a. Survey participants include 6 SMCs and 35 Non-SMCs
- b. Barring one or two, all companies get their valuation done by Actuaries.
- c. 20% of the survey participants require compliance to international accounting standards include IAS 19 (International GAAP), FAS87/ FAS158 (US GAAP)
- d. 47% of companies do separate valuation for accounting and funding
- e. 78% of Certification of valuation done by a Consulting Actuary, 17% by the Insurance company, rest done by non-actuaries
- f. The required qualification of the person/ consulting actuary signing in the figures for Employee benefit is known to be the fellow of Institute of Actuaries of India or Fellow of any other internationally recognised actuarial institutions.
- g. The company has access to an Actuary any time when actuarial services required
- h. Only 60% of companies availing actuarial services are aware of APS (Actuarial Practise Standards) to be complied by the Consulting Actuary prescribed by the IAI
- i. 81% of participants desired to have an understanding of regulatory requirements and professional guidance within which Actuaries must operate from Institute of Actuaries of India
- j. Only 10% of the participants attended any training/ guidance session during the Calendar year 2012 arranged by Institute of Chartered Accountants of India, and not by any.
- k. 85% of the participants desires to know more about the role of Actuaries and changing regulations in Accounting and Funding of Employee Benefits

## E. Survey- Questions and Responses

Responses to survey questions from Q.4 available in Appendix II

## F. Key Conclusions

Even from the small number of responses there are a few key takeaways:

- a. Companies are keen to understand more about the actuarial profession, in particular, regarding regulatory and professional standards

## G. Next steps and suggested actions

- a. Institute to reach out to Companies in India more frequently to understand the accounting practises which essentially require actuarial services
- b. Suggestion to consulting actuaries that their clients are made aware of the professional conduct standards they are bound by.
- c. When conducting external seminars / client meetings then actuaries should present a little on the history of the profession and the standards they must follow. AGPSS should provide a standard short summary slide deck (3-4 slides) that actuaries may include in their presentations for this. These slides should be very high level and just to make the stakeholders aware of the main framework the profession operates within.
- d. Enhance branding of consulting actuaries with clients and other stakeholders (e.g. auditors), specific to employee benefits.

- b. There are a number of companies that need to report under actuarial standards outside India
- c. They are familiar with actuaries and their role in the area of accounting for employee benefits

- e. A channel of communication to be opened with other professional institutes, particularly with the Institute of Chartered Accountants of India to reach out to companies in a better way.
- f. Professions feedback on actuarial services used/ not used by companies in relation to AS 15 (R) to be known to the Institute of Chartered Accountants of India
- g. Training/ discussion sessions on Accounting practises and its implications may be arranged jointly with the ICAI involving experts from both professions.
- h. Key persons from the ICAI may be invited to attend Conference/s on current issues organised by the Advisory Group on Pensions and Employee Benefits and request for the same at their events

# EMPLOYEE BENEFITS AND ACTUARIAL REPORTING- A SURVEY REPORT

## Annexure-1

### A. Summary table of companies targeted

Employee count	Turnover (In Cr)								Total
	1 - 50	51 - 100	101 - 250	251 - 500	501 - 1000	1001 - 2500	2501 - 5000	5001 & Above	
1 – 50	33	13							46
51 – 100	67	24	4			2			97
101 – 250	31	44	12	4	1			1	93
251 – 500	4	41	50	30	7	4	1	1	138
501 – 1000	3	30	29	35	40	13	1	7	158
1001 – 2500	2	10	11	28	13	31	10	35	140
2501 – 5000	1	1	3	6	15	43	11	3	83
5000 & Above		4	3	3	8	10	15	74	117
<b>Total</b>	<b>141</b>	<b>167</b>	<b>112</b>	<b>106</b>	<b>84</b>	<b>103</b>	<b>38</b>	<b>121</b>	<b>872</b>

### B. Summary table of companies responded

Employee count	Turnover in Crores								Total
	1 - 50	51 - 100	101 - 250	251 - 500	501 - 1000	1001 - 2500	2501 - 5000	5001 & Above	
1 – 50	3	2							5
51 – 100	1								1
101 – 250	1	4		1					6
251 – 500		3	2						5
501 – 1000		4	2	2	2				10
1001 – 2500				2		3		1	6
2501 – 5000	1				1	2			4
5000 & Above			1		1			2	4
<b>Grand Total</b>	<b>6</b>	<b>13</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>0</b>	<b>3</b>	<b>41</b>

# EMPLOYEE BENEFITS AND ACTUARIAL REPORTING- A SURVEY REPORT

## C. Industry/ Sub Industry targeted

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<b>Aerospace &amp; Defence</b>	<b>IT</b>
Airlines	Computer Hardware
Space/Aircraft Manufacturers	Computer Networks
<b>Agriculture &amp; Fishery</b>	Computer Software & Programming
Agriculture Machinery	<b>ITES</b>
Agriproducts/Crops/Horticulture/ Aquaculture/Livestock	BPO/Offshoring
<b>Automotive/Automobile</b>	KPO/LPO/Research
Auto Parts/OEM	<b>Manufacturing</b>
Automobile Manufacturers	Capital Goods/Fabricated Parts/Tools
Miscellaneous Products	Construction Services
Miscellaneous Related Services	Consumer Goods/Personal Use
Tires	Electronics/Electrical
<b>Chemicals</b>	Food & Beverage
Chemical Manufacturing	Heavy/Engineering equipment
Glass/Resins/Polymers	Ship Building/Locomotive & Related
Pesticides/Fertilizers & Other Compounds	Wood/Paper/Furniture
Plastics & Rubber	<b>Metals &amp; Mining</b>
<b>Construction /Real Estate</b>	Metal Mining
Construction Services	Miscellaneous metal/mining services
Construction Supplies	Non Metal Mining
Real Estate Services	<b>Retail</b>
<b>Diversified Business</b>	Retail
Multiple Industries	<b>Services</b>
<b>Energy &amp; Utilities</b>	Advertising
Coal	Business Services
Energy/Oil/Gas- Distribution/Equipment	Educational Services
Oil & Gas Operations	Freight/Courier
Power & Electricity	Hotels & Hospitality
<b>Export/Import</b>	Independent Advisory bodies
Export houses	Legal Services/Advocates
<b>Fabric &amp; Apparel</b>	Miscellaneous Services

## EMPLOYEE BENEFITS AND ACTUARIAL REPORTING- A SURVEY REPORT

Apparel & Accessories	Packaging
Footwear	Personal Services
Textiles	Printing/Publishing
<b>Finance</b>	Trading & distribution services
Banks	Transportation & Logistics
Consumer Finance	Travel & Tourism
Insurance (Life, Non Life & Misc.)	<b>Telecom, Media &amp; Communications</b>
Investment Services	Broadcasting & Cable TV
Miscellaneous financial services	Communication Services
Private Equity/Venture Capital	Equipment
<b>Healthcare</b>	Media/News/Entertainment/Dotcom Services
Healthcare Services/Facilities	Motion Pictures/Film Production/Distribution
Pharma/Biotechnology	

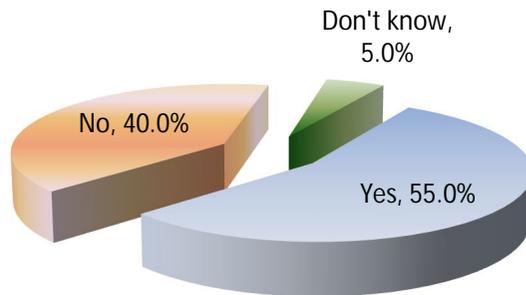
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### D. Industry/ Sub industry responded

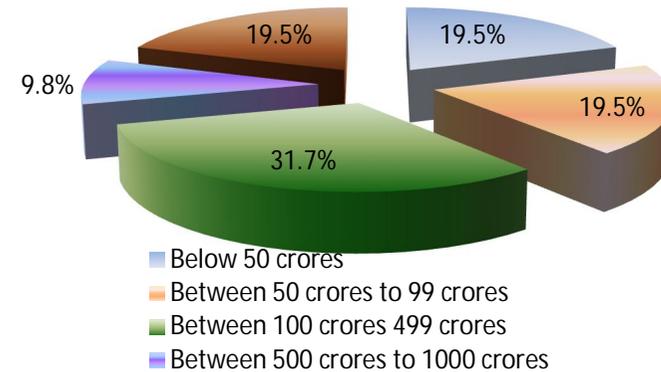
<b>Automotive/Automobile</b>	<b>IT</b>
Auto Parts/OEM	Computer Hardware
Automobile Manufacturers	Computer Software & Programming
<b>Chemicals</b>	<b>ITES</b>
Chemical Manufacturing	BPO/Offshoring
<b>Construction /Real Estate</b>	<b>Manufacturing</b>
Construction Services	Capital Goods/Fabricated Parts/Tools
<b>Energy &amp; Utilities</b>	Consumer Goods/Personal Use
Oil & Gas Operations	Food & Beverage
Power & Electricity	Heavy/Engineering equipment
<b>Fabric &amp; Apparel</b>	<b>Services</b>
Textiles	Business Services
<b>Finance</b>	Transportation & Logistics
Banks	<b>Telecom, Media &amp; Communications</b>
Investment Services	Media/News/Entertainment/Dotcom Services
Miscellaneous financial services	Motion Pictures/Film Production/Distribution
<b>Healthcare</b>	
Pharma/Biotechnology	

## Annexure-II

Q.4. Is your company falling under an SMC (Small and Medium Sized Company) category?



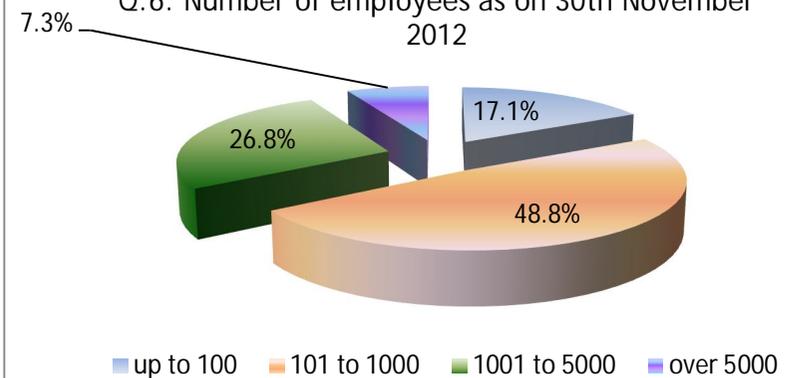
Q.5. What is the annual turn over of the company as on 31st March 2012 (INR)?



By turnover, there were only 6 companies in the SMC category and 35 falls in non-SMC

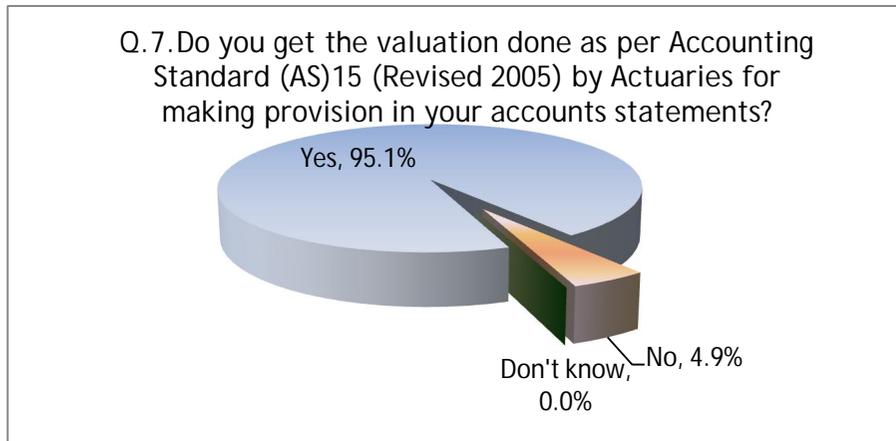
For the purpose of applicability of AS 15 (revised 2005) the definition of SMC's has been modified and accordingly some relaxations are given to SMC's. Under this definition, Bank/ Financial Institutions/ Insurance Companies or corporate entities having turnover greater than 50 crores fall in Non-SMC category. Under non-corporate entities, the definition is based on the number of employees in the range of 50 or above. The mismatch in answers for Q.4 and Q.5 to be viewed with this background information.

Q.6. Number of employees as on 30th November 2012

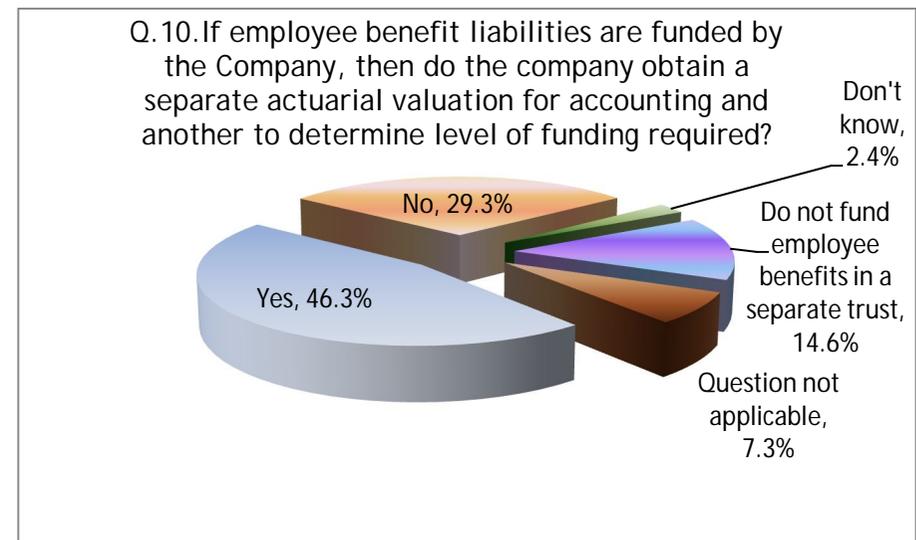


# EMPLOYEE BENEFITS AND ACTUARIAL REPORTING- A SURVEY REPORT

3 companies have more than 5000 employees and have counts 7000+, 10000+ and 60000+

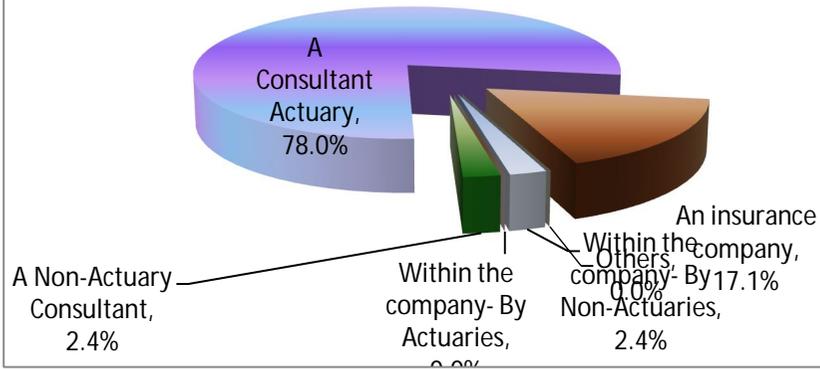


The 4.9% showing "No" option to be considered as valuation done by companies by Non-Actuary consultant or Non-actuary within the Company

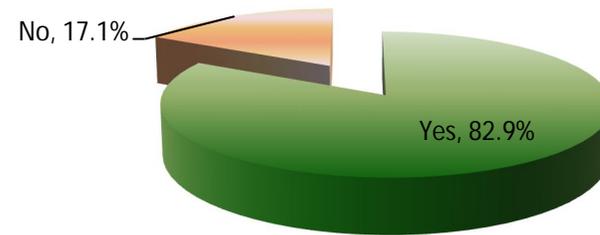


# EMPLOYEE BENEFITS AND ACTUARIAL REPORTING- A SURVEY REPORT

Q.11. Who certifies the valuation of your employee benefits when required?



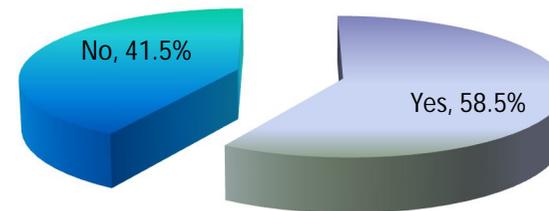
Q.13. Do you have access to the Actuary in case of any help or service regarding the provision?



Q.12. Are you aware that the individual certifying your actuarial valuation is a Fellow of the Institute of Actuaries, India or Fellow member of any other actuarial bodies?

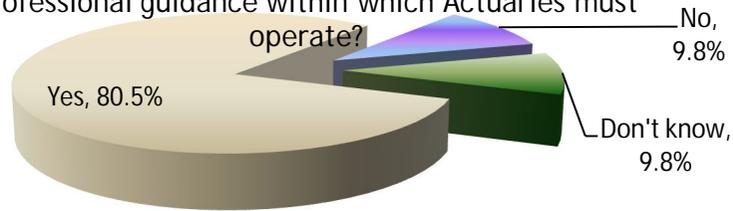


Q.14. Are you aware that the Institute of Actuaries of India has specific professional Guidance Notes and practice Standards that certifying actuaries must comply with?

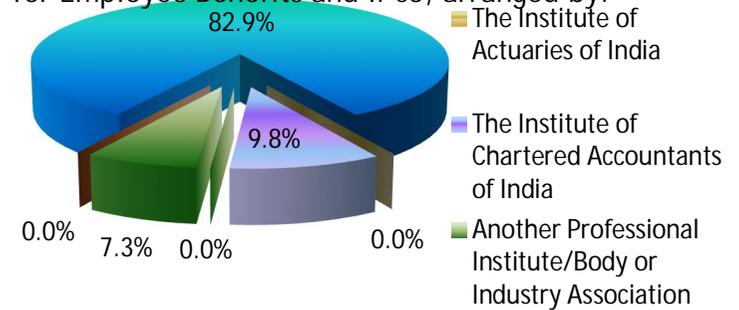


# EMPLOYEE BENEFITS AND ACTUARIAL REPORTING- A SURVEY REPORT

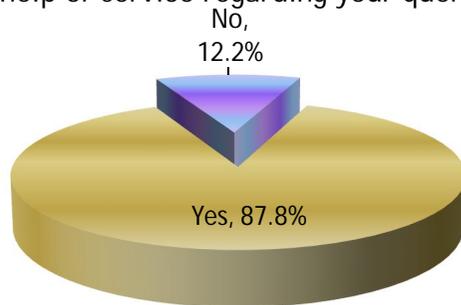
Q.15. Do you feel that it is necessary for the Institute of Actuaries of India to provide you with an understanding of regulatory requirements and the professional guidance within which Actuaries must operate?



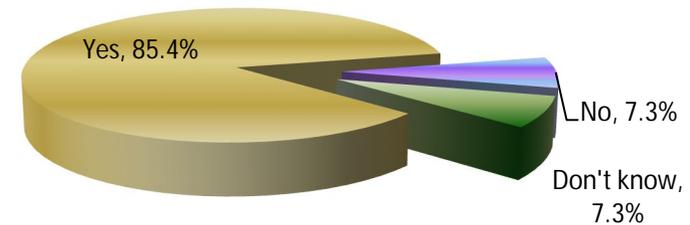
Q.17. Have you or any one from your company attended any discussion sessions during the calendar year 2012 on topical issues in Accounting for Employee Benefits and if so, arranged by:



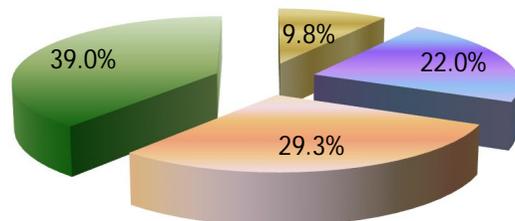
Q.16. Do you have access to an Actuary in case of any help or service regarding your queries?



Q.18. Do you feel that it is necessary to hold sessions to explain changes to regulations with respect to accounting and funding of employee benefit plans and the role of Actuaries?



Q.19.What do you think is the best time of the year to organize such sessions?



■ April-June(Q1) ■ July-Sep (Q2) ■ Oct-Dec (Q3) ■ Jan-March (Q4)

### SURVEY QUESTIONNAIRE

#### UNDERSTANDING EMPLOYERS' EXPECTATIONS AND REQUIREMENTS OF THE ACTUARIAL PROFESSION IN RELATION TO EMPLOYEE BENEFITS

20<sup>th</sup> December, 2012

#### Introduction

Dear Sir/Madam,

In the last few years, Indian companies have seen a paradigm shift in the way employee benefits are accounted for in their financial statements through Indian and International Accounting standards. With particular reference to benefits that are long term in nature for the company and employees, there is an increasing need to understand the nuances of determining and interpreting these costs and for the actuarial profession to play a key role to support companies and other stakeholders in achieving this goal. This is even more important as Indian companies expand overseas where these issues are far more developed and significant.

We would like your assistance to complete this survey to understand your expectations from the Institute of Actuaries of India so that our future development can be guided by your feedback.

We would value your participation. The final survey report would be shared with participants and the confidentiality of any individual participant's responses would be strictly maintained by

us. Data provided by participating Companies would be shared within the members of the Research team of the Institute alone.

The survey should take not longer than ten minutes and we will be collecting responses until **15th January 2013**.

NOTE: The Survey is limited to treatment of Employee Benefits reporting in Company's financial statements and NOT that of Trusts set up by the company (for example Gratuity or Superannuation or other)

#### A: About the participant Company

1. Name of the Company :
2. Contact Person and Designation :
3. e-mail and telephone number of contact person :
4. Is your company falling under an SMC (Small and Medium Sized Company) category?
  - a. Yes
  - b. No
  - c. Don't Know

# EMPLOYEE BENEFITS AND ACTUARIAL REPORTING- A SURVEY REPORT

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5. The annual turnover of the company as on 31st March 2012 (INR)?
  - a. Below 50 crores
  - b. Between 50 crores to 99 crores
  - c. Between 100 crores 499 crores
  - d. Between 500 crores to 1000 crores
  - e. More than 1000 crores
6. Approximate number of employees as on 30th November 2012:
  - a. up to 100
  - b. 101 to 1000
  - c. 1001 to 5000
  - d. over 5000

## **B: Actuarial valuation purposes**

7. Do you get the valuation done as per Accounting Standard (AS) 15 (Revised 2005) by Actuaries for making provision in your accounts statements?
  - a. Yes
  - b. No
  - c. Don't know
8. Does your company require compliance with any international accounting standards?
  - a. Yes
  - b. No
  - c. Don't know
9. Which is the international accounting standard applicable to your company?

- a. IAS 19 (International GAAP)
- b. FAS 87 / FAS158 (US GAAP)
- c. Other GAAP
- d. Question not applicable

10. If employee benefit liabilities are funded by the Company, then do the company obtain a separate actuarial valuation for accounting and another to determine level of funding required?

- a. Yes
- b. No
- c. Don't know
- d. Do not fund employee benefits in a separate trust
- e. Question not applicable

## **C: Knowledge who signs your report and access**

11. Who certifies the valuation of your employee benefits when required?
  - a. Within the company- By Non-Actuaries
  - b. Within the company- By Actuaries
  - c. A Non-Actuary Consultant
  - d. A Consultant Actuary
  - e. An insurance company
  - f. Others

12. Are you aware that the individual certifying your actuarial valuation is a Fellow of the Institute of Actuaries, India or Fellow member of any other actuarial bodies?
- Yes
  - No

13. Do you have access to the Actuary in case of any help or service regarding the provision?
- Yes
  - No

## D: Awareness of the Actuarial Profession

14. Are you aware that the Institute of Actuaries of India has specific professional Guidance Notes and practice Standards that certifying actuaries must comply with?
- Yes
  - No

15. Do you feel that it is necessary for the Institute of Actuaries of India to provide you with an understanding of regulatory requirements and the professional guidance within which Actuaries must operate?
- Yes
  - No
  - Don't know

16. Do you have access to an Actuary in case of any help or service regarding your queries?
- Yes
  - No

## E: Attendance of sessions conducted by Institutions/Professional bodies

17. Have you or any one from your company attended any discussion sessions during the calendar year 2012 on topical issues in Accounting for Employee Benefits and if so, arranged by:
- The Institute of Actuaries of India
  - The Institute of Chartered Accountants of India
  - Another Professional Institute/Body or Industry Association
  - A consulting company
  - An insurance company
  - Not attended any
18. Do you feel that it is necessary to hold sessions to explain changes to regulations with respect to accounting and funding of employee benefit plans and the role of Actuaries?
- Yes
  - No
  - Don't Know

19. What do you think is the best time of the year to organize such sessions:

- a. April-June(Q1)
- b. July-Sep (Q2)
- c. Oct-Dec (Q3)
- d. Jan-March (Q4)

## Other

20. Please give us any other comments/feedback you may have regarding the Actuarial profession in India that will help it develop its future agenda to engage with users of actuarial services.

Thank you very much for your participation in the survey.