

CIRCULAR LETTER TO ALL FELLOW MEMBERS REGARDING GNS ON EMPLOYEE BENEFITS VALUATIONS

This circular is issued to clarify certain issues relating to valuation of employee benefits arising out of the accounting standard AS 15 by the Institute of Chartered Accountants of India and its subsequent modification by AS 15 (R). During the period lasting over more than a year many members in our profession have been expressing their concerns and opinions on matters relating to valuation of employee benefits. The Advisory Group on Pensions and Social Security has also been discussing these and GN 26 has recently been placed on the web site after due process, which for one reason or the other lasted more than a normal expected time. This circular provides clarifications which are not covered under GN 26 and also introduces two new GNs proposed to be issued.

At the outset it is felt necessary to make more comprehensible the current status of existing GNs.

Status of GN 11, 12 and 18:

- i) **GN 12:** GN 12 is no more relevant and hence may be treated as withdrawn with immediate effect.
- ii) **GN 11 and 18:** These GNs apart from providing required guidance for accounting as per the AS 15 (1995) they also provide guidance applicable to funding of the schemes and appropriate disclosures. Hence GN 11 and 18 continue to exist and their application will be limited to scheme funding only.
- (iii) **GN 26:** Covers aspects relating to actuarial reports prepared under requirements relating to AS 15 (R)

Although GN 26 covers requirements under AS 15 (R), it was found and felt that two further GNs are required to cover special aspects relating to actuarial valuation of compensatory absences and other employee benefits as these comprise certain special features and are best dealt with separately instead of under a single GN (GN 26) covering general aspects of valuation of long term employee benefits for accounting purposes.

The matter regarding valuation of interest guarantee under employee provident funds has been under discussion. Differences of opinion continue on this matter. As soon as a consensus is reached on this issue appropriate guidance will be issued.

Accordingly, attached to this circular are the following:

- 1) Draft of GN 26 modified to a very minor extent for certain very recent developments.

- 2) Draft of GN 27 regarding actuarial valuation for accounting for Compensatory Absence under Accounting Standards 15 (Revised)
- 3) Draft of GN 28 regarding actuarial valuation for accounting for Other Employee Benefits under Accounting Standards 15 (Revised)

All members are requested to go through the above three and send their suggestions, comments and opinions to the secretariat of the Institute of Actuaries of India. It would also facilitate quicker finalization of the proposed GNs if any member who desires to send his suggestions can suggest a specific modification of the relevant part of the text of the draft of the proposed GNs.

Thanks and with warm greetings to all.

K.P.Sarma,
Chairperson, Advisory Group on Pensions and Social Security