



MEMORANDUM

TO: All Members and Associates of the Canadian Institute of Actuaries
FROM: Geoff Guy, Chairperson,
Practice Standards Council
DATE: July 13, 2001
SUBJECT: **Amendment to Section 4.9 of the Standards of Practice for the Valuation of Policy Liabilities of Life Insurers**

Document 20167

On July 12, 2001, the Practice Standards Council adopted a change to Section 4.9 of the Standards of Practice for the Valuation of Life Insurance Policy Liabilities.

The first paragraph of Section 4.9 should be deleted: “Under GAAP, it may be appropriate for the insurer to explicitly defer and amortize recoverable acquisition expenses. The unamortized balance would be presented in an asset account. The actuary should explicitly test the recoverability of the unamortized balance, and make an adjustment to the value of the policy liabilities if required to serve the objective of the valuation.”

In place of that paragraph, the following paragraph should be inserted: “In certain types of contracts, the insurer recovers its acquisition expenses from future premiums or other charges that the insurer will make over the term of the liability and that the actuary will duly recognize in the valuation of the policy liabilities. In other types of contracts, it may be reasonable to expect the insurer to recover some acquisition expenses from revenue that will be received beyond the term of the liabilities. In these cases, it would be appropriate for the actuary to defer and amortize such acquisition expenses in a reasonable manner. The actuary should explicitly test the recoverability of any unamortized acquisition expense balance, and make an adjustment to the value of the policy liabilities if required to serve the objective of the valuation.”

This amendment is in response to a recent concern expressed by the Committee on Life Insurance Financial Reporting (CLIFR) and the Canadian Institute of Chartered Accountants (CICA) that there is a potential inconsistency between Section 4.9 of the standard of practice and the section entitled “Acquisition Expenses” of Accounting Guideline 9. Section 4.9 as previously written stated that any unamortized acquisition expense balance would be presented as an asset account. However, Accounting Guideline 9 as currently written is not necessarily consistent with this treatment. The CICA is in the process of reviewing Accounting Guideline 9 to clarify the guidance, but no changes will be implemented in time for the 2001 year-end valuation. The revised Section 4.9 allows the actuary to adjust the value of the policy liabilities if appropriate in the context of the accounting presentation.

The effective date of this amendment is the same as that of the standard of practice.

Any questions on this matter should be addressed to Simon Curtis, Chairperson of the CLIFR, at his *Yearbook* address.