

## ***Explanatory Report***

# **Bank of Canada Revisions to Real Return Bond Data, Actuarial Evidence Practice Area**

## **Committee on Actuarial Evidence**

**June 2021**

Document 221059

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*The actuary should be familiar with relevant other guidance. They expand or update the guidance provided in an educational note. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however that a practice that the other guidance describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, other guidance may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards. To assist the actuary, the CIA website contains an up-to-date reference document of impending changes to update other guidance.*

# MEMORANDUM

**To:** Members in the actuarial evidence area  
**From:** Steven W. Easson, Chair  
 Actuarial Guidance Council  
 Craig A. Allen, Chair  
 Committee on Actuarial Evidence  
**Date:** June 11, 2021  
**Subject:** **Explanatory Report: Bank of Canada Revisions to Real Return Bond Data, Actuarial Evidence Practice Area**

On May 10, 2021, the Bank of Canada revised the daily (V39057), weekly (V80691347), and monthly (V122553) rates for real return bond data from June 1, 2020, to capture the rollover of the 2050 bond, starting June 1, 2020. The previously published rates were based on the 2044 bond. The purpose of this explanatory report is to outline how the actuarial evidence practice area may be affected in the context of these revisions by the Bank of Canada.

The guidance is largely in parallel with that provided for pension commuted values issued on May 26, 2021 ([Document 221051](#)).

## **Section 4500 (Capitalized Value of Pension Plan Benefits for a Marriage Breakdown)**

The rates on the last Wednesday of each month from June 2020 to March 2021 under CANSIM Series V122553<sup>1</sup>: Real return bond – long term decreased by one to six basis points, as shown in the following table:

| Month          | Previously published V122553 | Updated V122553 | Month         | Previously published V122553 | Updated V122553 |
|----------------|------------------------------|-----------------|---------------|------------------------------|-----------------|
| June 2020      | -0.01                        | -0.07           | November 2020 | -0.26                        | -0.30           |
| July 2020      | -0.17                        | -0.21           | December 2020 | -0.24                        | -0.27           |
| August 2020    | -0.18                        | -0.19           | January 2021  | -0.08                        | -0.12           |
| September 2020 | -0.18                        | -0.21           | February 2021 | 0.24                         | 0.20            |
| October 2020   | -0.24                        | -0.28           | March 2021    | 0.28                         | 0.22            |

The Committee on Actuarial Evidence (AEC) reviewed the Standards of Practice including, but not limited to, Section 4500 and subsections 1140 (e.g., spirit and intent of the standards,

<sup>1</sup> This change may affect calculations that require, or depend on, the use of V122553. For example, paragraph 4530.09 of the Standards of Practice uses V122553 in the determination of  $r_L$ .

constraints on time and resources), 1230 (Unusual and unforeseen situations), 1240 (Materiality), 1420 (Event), and 1430 (Subsequent events). In addition, the AEC reviewed the explanatory report on this issue, prepared by the Pension Plan Financial Reporting Committee dated May 26, 2021.

For capitalized values of pension plan benefits for a marriage breakdown determined within the scope of Section 4500 for calculation dates from July 1, 2020, to April 30, 2021, the AEC's interpretation of the application of *Standards of Practice* in the context of these revisions by the Bank of Canada is:

- where the result of the calculation has been communicated to the client, the actuary would not recompute the capitalized value to reflect the updated V122553 rates; and
- where the result of the calculation has not been communicated to the client, the actuary would compute the capitalized value using the updated V122553 rates. However, the actuary may consider the application of subsections 1140 and 1240 and determine that it would be appropriate to use the previously published V122553 rates.

Regardless, the terms of an appropriate engagement may require the actuary to use the updated V122553 rates.

#### **Other applications within the actuarial evidence practice area**

The retroactive changes to the daily, weekly, and monthly rates may affect other work or reports prepared within the actuarial evidence practice area. An actuary would review the *Standards of Practice* (e.g., subsections 1140, 1240, and 1430) and consider:

- the engagement;
- the purpose of the work; and
- when the actuary became aware of the event in relation to the calculation date and the report date.

The actuary may determine either that it would be appropriate to use the updated daily, weekly, or monthly rates as applicable, or that it would be appropriate to use the previously published daily, weekly, or monthly rates as applicable.

Regardless, the terms of an appropriate engagement may require the actuary to use the updated daily, weekly, or monthly rates as applicable.

SWE, CAA