



Deadline: 30 April 2019

Please use this template to comment on the [2nd Exposure Draft of ISAP 4 on IFRS 17 Insurance Contracts](#), and the proposed revisions to the [Glossary for ISAP 4](#).

The IAA invites comments on this 2nd Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) Are comments on the questions as stated;
- (b) Take full account of what is already addressed in the [consultation report on the 1st exposure draft](#).
- (b) Indicate the specific paragraph or group of paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Include any alternative that the IAA should consider, if applicable within the scope of the [Statement of Intent for ISAP 4](#).

Identification and instructions		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	Les Rehbeli, representing Canadian Institute of Actuaries; Simon Curtis, representing Actuarial Standards Board
Name of organization		Canadian Institute of Actuaries (CIA); Actuarial Standards Board (ASB)
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Not confidential
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as “Introduction 3rd paragraph 2nd bullet” or “2.6.1.b.ii” ○ Please insert/append extra rows as needed. <p>Please send the completed template, renamed with the organization’s or individual’s name, attached in <u>Word Format</u>, to ISAP4.comments@actuaries.org.</p>	



	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	<p>The second exposure draft is significantly more clear and unambiguous than the first exposure draft. We have only a few specific comments on paragraphs that should be amended for clarity:</p> <ul style="list-style-type: none"> In Paragraph 2.6.9 a(ii), the word “which” should be replaced with “that” for clarity. The use of the word “which” changes the meaning of the phrase to imply that all insurance contract cash flows vary with invested asset returns. Suggested wording is: <i>“Cash flows of insurance contracts, which that vary with the returns...”</i> Paragraph 2.6.13 c(iii) implies that diversification must be reflected in the risk adjustment. IFRS 17 requires diversification to be reflected only to the extent that the entity considers diversification in its compensation requirements. Recommended wording: <i>“Allows for diversification to the extent considered by the entity in assessing the compensation required to bear uncertainty.”</i> Paragraph 2.6.13 e specifies that the potential for non-performance of reinsurers should be allowed for in <i>either</i> the estimates of future cash flows or the risk adjustment. IFRS 17 requires this to be included in the estimates of future cash flows and not in the risk adjustment. We acknowledge that previously there was some uncertainty around whether it could also be included in the risk adjustment. However, it was clarified at the April 2019 TRG meeting (see AP02 S119) that reinsurer non-performance is to be included in the estimates of future cash flows. <p>Recommendation: Delete paragraph 2.6.13 e</p>
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	<p>In our opinion, the ISAP 4 is generally sufficiently comprehensive and appropriate.</p> <p>However, we have a few minor comments below in the “specific comments” section.</p>



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General Comments on the ISAP 4 – 2 nd Exposure Draft	
	<p>The CIA and ASB commend the authors of the ISAP 4 document for developing this standard, and acknowledge and appreciate the significant and numerous revisions made since the first exposure draft. The CIA and ASB support this document, and ask only that the IAA consider our few remaining comments, which we believe are needed to further improve the clarity of ISAP 4 and ensure greater consistency with IFRS 17.</p> <p>We have one minor wording comment that applies throughout the document: the term “risk adjustment for non-financial risks” is used in several paragraphs, and should be changed to “risk adjustment for non-financial risk”, for consistency with IFRS 17.</p>

Comments on specific paragraphs of the ISAP 4 - 2 nd Exposure Draft		
Full paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
2.4	Modify the bullet in 2.4 b to read: “Separation and combination of insurance contracts”	To address recent TRG discussions related to situations where it would be appropriate to separate insurance contracts
2.6.1 a	Change font size from 11 to 12.	To align with the other items.
2.6.3 a	Characteristics of the <u>insurance contract</u> including the risks being insured;	To clarify that there may be more than one insurance risk being insured.
2.6.12	The <u>actuary</u> should be satisfied that the <u>attribution of allocation of insurance acquisition cash flows</u> to each <u>portfolio of insurance contracts</u> is made on a consistent basis.	The IAA response to our comment on the first exposure draft (see page 38 of the ISAP 4_ED Consultative Report) says that the authors intended to make the suggested change (replace “allocation” with “attribution”). We believe this is just an oversight in the second exposure draft.



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2.8	The Variable Fee Approach (VFA) – In using the VFA , the actuary should apply the guidance in paragraph 2.6, except for 2.6.6. (Reinsurance Contracts Held) and 2.6.7. (Reinsurance Contracts Issued), which are not applicable .	Added wording “which are not applicable” to make it clear that 2.6.6. and 2.6.7 are excluded because VFA cannot be used for reinsurance, and not because other guidance applies.
2.10 a	Modify the sentence to read: The availability and integrity of past policy data that are required to determine the fulfilment cash flows since at initial recognition;	Change the word “since” to “at”, to clarify that the calculation is at the initial recognition date.
3.1.2	The rationale and impact of any changes in approaches, including changes related to :	Added wording “changes related to” to improve the flow of the paragraph.

Comments on specific definitions in the Exposure Draft of the updated Glossary

Note that only the proposed revisions are open for comment

Defined Term	Change proposed to the definition (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
Glossary – Variable Fee Approach	Variable Fee Approach (ISAP 4) –The approach that is a modification of the general measurement approach , which is permitted required for the valuation of insurance contracts with direct participation features , as set out in IFRS 17 .	VFA is not optional if the requirements are met.
Glossary – General Measurement Approach (ISAP 4)	General Measurement Approach (ISAP 4) –The basis for measuring insurance contracts set out in IFRS 17, except where IFRS 17 permits a simplification (in the case of the premium allocation approach) or requires a modification (in the case of the variable fee approach).	VFA is not optional if the requirements are met.