



Memorandum

To: All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries and other interested parties

From: Edward Gibson, Chair
Actuarial Standards Board

Tim McGorman, Chair
Designated Group – Reliance on Third-Party Data Providers

Date: September 8, 2023

Subject: **Notice of Intent: Reliance on Third-Party Data Providers**

Comment deadline: October 31, 2023

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Introduction

On May 10, 2021, the Bank of Canada (BOC) revised the CANSIM series for the daily (V39057), weekly (V80691347) and monthly (V122553) rates for real return bond data from June 1, 2020, onward (i.e., both retroactive and prospective applications), to capture the rollover of the 2050 bond. The previously published rates were based on the 2044 bond. Both the Committee on Pension Plan Financial Reporting and the Actuarial Evidence Practice Committee produced explanatory reports in May 2021 and June 2021, respectively, to address the impact of the CANSIM series revisions on their practice areas.

This unanticipated retroactive application by the BOC, as well as any future methodology changes by the BOC (i.e., elimination of reporting real return bond rates), prompted the Actuarial Standards Board (ASB) to establish a designated group (DG) to analyze the impact of the reliance on all third-party data providers cited in our *Standards of Practice*. The DG was tasked with the following mandate:

1. Review the *Standards of Practice* to list references to third-party data providers.
2. Identify consequential issues arising from changes in the third-party providers' data accuracy, change in methodologies and/or reliability.
3. Assess whether viable backup alternative third-party data providers exist and identify protocols for data production in their absence.
4. Recommend changes, if any, to the *Standards of Practice* and/or use of promulgation.

This mandate includes a complete review of all sections of the *Standards of Practice*, intended to identify revisions that may be appropriate given reliance on third-party data providers. The issue of expansion of the mandate to investigate the impact of third-party data providers related to CIA publications other than the *Standards of Practice* (notably documents from the Actuarial Guidance Council) was raised but dismissed as those investigations should be conducted under the respective CIA council(s)/committee(s).

This notice of intent (NOI) outlines changes under consideration during this review, and requests feedback on the proposed revisions as part of the formal due process for amending the actuarial standards of practice.

Findings of the designated group

The sections below provide our findings for each part of the mandate.

1. Review the Standards of Practice to list references to third-party data providers.

All sections of the *Standards of Practice* (SOP) were reviewed, and the only third-party data providers are the BOC and FTSE Russell (FTSE). The BOC provides the information needed for the three CANSIM series in paragraph 3540.05 of the SOP. These CANSIM series are used to determine the interest rates used in the calculation of a commuted value in accordance with that section. The BOC also provides the three CANSIM series in paragraph 4530.09 of the SOP, which are used in the calculation of the capitalized value of pension plan benefits for a marriage breakdown. FTSE provides the bond index yields in paragraph 3540.07, which are used in the calculation of the spread adjustment for the interest rate to be used in commuted value calculations. The FTSE bond index yields are for corporate, provincial and federal bonds.

2. Identify consequential issues arising from changes in the third-party providers' data accuracy, change in methodologies and/or reliability.

The primary consequential issue is the inability to determine the interest rates to be used in the calculation of commuted values and capitalized values. In the case of the FTSE bond yields, paragraph 3540.07 does permit the ASB to promulgate other bond index yields or calculation bases for purposes of the calculations. No such promulgation option exists for the BOC CANSIM series. The decision to discontinue the issuance of real return bonds (RRB) will, over time, impact the CANSIM series that uses the RRB index and any calculations tied to this index.

The ASB has no ability to audit the indices provided by the BOC and FTSE. Their data is accepted as accurate unless advised otherwise. It should be noted that many others (financial institutions, investment professionals, etc.) use this information so there is an implicit ongoing review from a reasonableness perspective. The ASB also has no ability to modify or change the methodologies used to create the indices. In the event the data provider makes a correction to the data (i.e., data is not changed, just amended from previously reported), the CIA will need to advise membership how to handle the implications when this occurs. The ASB considered whether a process to address this should be determined now or when the matter arises. Given the potential complexities, the ASB and the DG believe that determining the course of action would be best left until the time of occurrence. With respect to reliability, the CIA has no contract with the BOC, but we do have one with FTSE. The FTSE contract sets out when the applicable indices are to be made available. The BOC publishes the new bond yields the next business day.

3. Assess whether viable backup alternative third-party data providers exist and identify protocols for data production in their absence.

We could not identify any alternative data providers to the BOC. For FTSE, there are other investment firms that likely could produce similar indices for the corporate, provincial, and federal bond yields, however this would involve considerable effort. Given the considerable effort required to secure an alternative provider, the DG is not recommending that the ASB pursue an alternative backup provider to FTSE at this time.

Changes to the Standards under consideration

The main recommendation of the DG is to add wording to permit promulgation by the ASB with respect to the CANSIM series provided by the BOC. It exists for the bond yield data provided by FTSE but not the BOC.

It was discussed whether methodologies to be used in the promulgation, needed due to any revisions or discontinuance of data provided by third-party data providers, be established now or at a later date. The DG's recommendation is to defer any methodology to be used in promulgation until the issue that needs to be dealt with is fully understood and all future options that may exist at that date are known.

Timeline

The ASB aims to publish an exposure draft before the end of November 2023 with the final Standards effective July 1, 2024. The ultimate timeline will depend on the feedback received and could vary from these targets.

Desired feedback

The DG and ASB are soliciting feedback on this NOI from members of the CIA and any other interested groups. Feedback is welcomed on the following questions:

1. Do you agree the ASB should be given the option to make promulgations, when appropriate, with respect to the BOC index yields?
2. Do you agree that the methodology to be used for promulgation will depend on the circumstances at the time of event and the development of such methodology be deferred until required?
3. Are there any other items that should be considered to address the impact on the reliance on third-party data providers?

Please send comments by **October 31, 2023**, to [Tim McGorman](#), with a copy to [Chris Fievoli](#). No other forums for obtaining feedback are contemplated at this time.

The members of the DG are Tim McGorman (Chair), Steve Easson, Patrick Desrosiers, Jamie Jocsak and Dean Newell.

The ASB's due process has been followed in the drafting of this NOI.

EG, TM



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