

ACTUARIAL STANDARDS BOARD (ASB) MEETING N° 114
MARCH 2, 2021
VIDEOCONFERENCE
10:00 A.M. – 15:10 P.M.

Present: Mel Bartlett
Thierry Chamberland
Renée Couture (*left at 15:00 p.m.*)
Pierre Dionne
Stéphanie Fadous
Azmina Jiwani
Jamie Jocsak
Josephine Marks, *chair*
Simon Nelson
Marshall Posner
Lesley Thomson (*left at 14:55 p.m.*)
Yun (Bill) Xu
Michel Simard, *ex officio (absent between 12:00 p.m. and 12:30 p.m.)*
Steve Easson, *ex officio*
Dean Newell, *guest*

Staff: Josée Racette

Guests: Kelley McKeating for item 7a; Steve Bocking for item 7b; Charly Pazdor, James Koo, and Dani Goraichy for item 7c; Mario Robitaille for item 7g; André Choquet and Gaetano Geretto for item 8; all at the invitation of the Chair.

The Chair opened the meeting and thanked everyone for joining.

114.1 Approval of Agenda

Motion: That the agenda be approved as presented.

Carried

114.2 Previous Minutes

The minutes from the November 25, 2020 meeting were reviewed.

Item 112.7f: A statement was made to the effect that the Joint Policy Statement had been repealed from the accounting standards. The statement was believed to be true at the time, but it was later discovered that the Joint Policy Statement is still in existence. Minutes will be revised accordingly.

Item 112.6: a minor housekeeping correction was noted.

Motion: That the minutes of ASB meeting N° 112 held on November 25, 2020 be approved as amended.

Carried

The minutes from the January 27, 2021 meeting were reviewed.

Motion: That the minutes of ASB meeting N° 113 held on January 27, 2021 be approved as presented.

Carried

114.3 Email votes

There were no electronic votes since the last meeting.

114.4 Disbanding Designated and Working Groups

There was one designated or working group to disband.

Motion: That the Designated Group on the General Review (other than Mortality) for Sections 3500 and 4500 be disbanded with thanks.

114.5 Review of Action Items

All action items were reviewed.

The investigation into other firms that could provide the information for the calculation of commuted values will be further discussed at the next meeting of the Committee on Pension Plan Financial Reporting (PPFRC).

IFRS 17 and promulgation issues: it will be covered under item 7e.

Research project on pension commencement age: Mel Bartlett presented the case for funding to the Research Council. A decision is expected to be made in the next few weeks.

114.6 Review Current Membership and Future Needs

The chair indicated she is still looking for a vice-chair (who would ideally be interested in taking over as chair next year) as well as a potential new chair for 2022.

114.7 Reports from Designated Groups

a) Quinquennial Review of Part 4000

Kelley McKeating joined the meeting for this item. She reported that the DG meets every three weeks to review the comments and prepare the exposure draft.

Currently the focus of the discussions is on discount rate assumptions for marriage breakdown (the DG elected to start with what is expected to be the most contentious and time-consuming issue). The group is very close to a consensus on the select and ultimate discount rates for traditional defined benefit plans, as well as the length of the select period and the inflation assumption.

Target benefit plans: the discussion is expected to be somewhat challenging and contentious as there are two broad types of such plans: traditional (union members and employer, challenged financially), and public sector plans (such as the risk sharing plans common in New Brunswick). The DG feels that target pension arrangements need to be specifically addressed in the standards.

It was agreed that it would be beneficial if a common ultimate risk-free rate could be agreed upon across practice areas, then define what the adjustment could be and why.

An exposure draft might be ready to be presented to the ASB at its June meeting, but more likely in the fall.

b) Ultimate Reinvestment Rate (URR)

Steve Bocking joined the meeting for this item. He provided a brief overview (recap) of the project that examines the following elements: calibration of risk-free interest rate criteria, ultimate reinvestment rate (URR), and maximum net credit spread.

The process and methodology are the same as those used previously.

Credit spread: the DG recommends a modest increase of 5 bps (from 80 bps to 85 bps).

There was some discussion as to whether this work could also be used for other purposes (such as scenario generation).

The final communication is expected to be released in June or July.

Motion: That the *Initial Communication of Updated Promulgations of the Maximum Net Credit Spread, the Ultimate Reinvestment Rates and the Calibration Criteria for Stochastic Risk-Free Interest Rates in the Standards of Practice for the Valuation of Insurance Contract Liabilities: Life and Health (Accident and Sickness) Insurance (Subsection 2330)* be approved for release as presented, with a comment deadline of May 31, 2021, and that the chairperson of the designated group, in consultation with the Head Office, be authorized to make any necessary editorial corrections (e.g., spelling, punctuation, format, grammar, cross-references) prior to its release.

Carried by at least 2/3 of members

c) Quinquennial Review of Part 3000

James Koo, Dani Goraichy, and Charly Pazdor joined the meeting for this item.

Simon Nelson reported that the subgroup met in January to discuss some issues of common interest to the three DGs.

Benefit security

The DG met in December. No major changes to the standards are expected to be proposed. The DG expects to finalize its changes by the end of March.

The development of an educational note on plausible scenarios is likely to be recommended (although not as a priority item).

There was some discussion on mechanisms in place to obtain feedback. Some regulators have indicated their desire for additional disclosures, whereas plan sponsors and their advisors generally oppose this as they feel it would represent more work (and cost) for little added value.

Meaningful stress testing

The DG is recommending two small changes to the standards (plausible adverse scenarios). The goal is to ensure that the actuary involves the plan administrator in the process to develop plausible adverse scenarios, as well as the addition of a safe harbour provision.

No educational note would be required to support the proposed changes to the standards. However, the DG will recommend the development of educational material on leverage, and illiquid asset classes and how to shock them.

Quinquennial Review of Part 3000

The DG met twice in February and has a meeting scheduled later this week.

A first draft of the proposed changes has been prepared, although there is some debate about some of the issues.

Two issues are left to finalize as follows: hypothetical wind-ups for target pension arrangements; and commuted values for target pension arrangements.

It was agreed that Charly Pazdor would prepare a first draft of the memo to members, to be reviewed by the other DG chairs and the ASB coordinator, before presenting it to the ASB.

It was reported that the CIA and ASB met in January to discuss issues of common interest. Concerns about the range of going concern discount rate assumptions have been expressed by regulators and CIA leadership is also concerned. PPFRC has indicated that it will only review the existing educational note once the pension standards have been published. PPFRC will discuss it further. Regulators are suggesting that some practitioners are using rates that are too aggressive. When asked for examples/evidence however, none has been provided to date.

An exposure draft is expected in Q2 2021.

Pension issue raised by PPFRC

The standards on commuted values refer, in a few places, to indexation formulas based on deterministic approaches. However, paragraph 3540.16 mentions that the actuary could use a stochastic analysis (pension escalation rate). A concern was expressed by PPFRC since there is no guidance on how to do a stochastic analysis. PPFRC will investigate a potential educational note.

It was suggested that PPFRC consult with the Committee on Life Insurance Financial Reporting (CLIFR).

The Chair provided a brief update on commuted values. The ASB is still receiving some feedback (new standards coming into effect in the middle of a pandemic that result in a lower commuted value).

d) Role of the Actuary in the IFRS 17 Context

Lesley Thomson reported that no comments have yet been received on the exposure draft, although the DG has received some questions concerning the opinion. It reinforces the DG's opinion that an educational note on the topic should be developed by the Committee on the Appointed/Valuation Actuary (AA Committee). The DG will also be involved.

e) IFRS 17

Stéphanie Fadous reported that the DG has not met in a while. The Office of the Superintendent of Financial Institutions (OSFI) is expected to communicate a range of outcome from the QIS.

Another factor to consider will be where CLIFR will land following the targeted external consultation on its educational note on discount rates. A communication will be prepared to keep the membership informed on this important topic.

f) Pension Commuted Values when Bond Yields are Very Low or Negative

Marshall Posner provided a brief overview of the requirement to update the standard due to negative interest rates having been foreseen during the summer of 2020. The commuted values (CV) standard does not address negative interest rates which could lead to implausible or unintended results.

It was noted that an upward trend for interest rates has recently been observed, thereby lessening the urgency.

The DG aims to ensure the formula in paragraph 3540.06, which uses r_7 (not currently publicly available) as an estimate of real return bond yields at maturity, does not yield unanticipated results.

The notice of intent (NOI) suggested two different approaches. A review of the comments received does not result in a consensus on the right solution.

The DG is currently investigating, with the Bank of Canada and FTSE Russell, the possibility of publishing a series or two that would allow actuaries to calculate r_7 . In case it is unsuccessful, the DG is favouring the second option mentioned in the NOI.

There was a brief discussion on the potential optics of revising the CV standard so soon after it became effective in December 2020. Regardless of the optics, the ASB agreed that it was appropriate to reach promptly, in the public interest.

The possibility of a promulgation of the assumption could be beneficial if relying on a third party.

The DG will prepare an exposure draft to be presented to the ASB at its April meeting.

g) ISAP 5 and ISAP 6

Mario Robitaille joined the meeting for this item and provided an update on the work of the DG.

ISAP 5 Enterprise Risk Models

The DG mapped ISAP 5 to the CIA standards. It found there are no major gaps. Some points would be nice to have but it feels that it would be best to incorporate them in an educational note (in the course of regular updates to educational notes). Some examples could also be added. The Enterprise Risk Management Practice Committee (ERMPC) could be asked to revise the educational note on models.

An ERM-specific note could make sense to support the integration of ISAP 6.

Since the CIA does not have standards specific to enterprise risk management, another option could be to incorporate these elements in the course of the work on ISAP 6.

The DG is proceeding with its work on ISAP 6. AN exposure draft is expected to be presented to the ASB at either its April or June 2021 meeting.

h) Quinquennial Review of Part 6000

Renée Couture reported that the DG will meet again in mid-March. A NOI has been drafted and is currently being reviewed. It will be submitted to the Committee on Post-Employment Benefit Plans for comments. The DG will present a draft of the NOI to the ASB at its April meeting and is hoping to release it in May (possibility of a mail vote) and ask for feedback by August.

114.8 Update from the Climate Change and Sustainability Committee (CCSC)

André Choquet, current Chair of the CCSC and Gaetano Geretto (former Chair) joined the meeting for this item.

The aim of the presentation was part educational and was also intended to provide a forum to discuss CCSC activities that are meaningful for the ASB.

The presentation covered topics such as the committee mandate, composition, priorities, and challenges. The CCSC has developed a practice resource document that is expected to be released soon.

An initiative that CCSC is considering is working with universities to develop courses from an (actuarial) analytics perspective. CCSC is looking into developing potential partnerships. It was noted that it is difficult to respond to all demands/all that could be done.

There was a brief discussion on the process for developing guidance and where potential standards on climate change could be integrated (probably best to integrate in each part). Climate change could be included as a risk. An education component would also be required.

Two future potential options were identified as follows:

- Form a designated group that includes some experts from the climate change field and other actuaries to look at the standards and make a recommendation on the best way to accommodate climate change.
- During the quinquennial review of a standard, the designated group would consult with CCSC.

CCSC wants to develop scenario testing (it could be its next initiative).

The Office of the Superintendent of Financial Institutions (OSFI) has issued a consultation document on climate change. It seems there could be possibilities for the CIA to collaborate with OSFI.

The CIA is making some headway in promoting emerging areas, for example banking. Some commonalities were noted between climate change and predictive analytics.

Climate change scenario testing could be included in financial condition testing.

The ASB and CCSC agreed to revisit the topic in approximately one year.

114.9 Current Pension Issues

Thierry Chamberland informed the ASB that a meeting took place with the Accounting Standards Board (AcSB) and the Auditing and Assurance Standards Board (AASB) to exchange and increase the collaboration between the two professions.

One of the issues discussed is access by actuaries to accounting standards. This access is currently managed by Chartered Professional Accountants (CPA) Canada. All agreed on the importance of communication to the actuarial community when changes are made to accounting standards that have a direct impact on the work of actuaries.

Materiality was also discussed, as was the selection of discount rates (this last topic was covered under item 7c).

114.10 CAPSA Invitation – 2021 Industry Dialogue Session

The Chair reported that the ASB and APOB have been invited by CAPSA to attend a session (part of a two-day meeting) on May 19. This session does not replace the meeting of the actuarial standard committee generally held in the fall.

Thierry volunteered to attend with the Chair.

114.11 Updates from the PDC, the IAC, and the Research Council

PDC (Practice Development Council)

Azmina Jiwani reported on a discussion on whether practice resource documents should be available to the public or to members only. The Actuarial Evidence Committee would like to retain its intellectual expertise within the profession.

The CCSC presented its practice resource document.

There was a presentation to the CIA Board on predictive modeling, an area that is gaining momentum and where other organizations are ahead of the CIA.

The PDC also discussed the importance of broadening the role of actuaries to ensure the profession remains relevant.

The PDC is working on developing a roadmap for leadership skills and next steps in raising the profile of actuaries in emerging areas. It plans on engaging the entire membership.

IAC (International Affairs Council)

Pierre Dionne reported on a meeting held in early February where the main topic of discussion was CIA candidates for various roles at the International Actuarial Association.

Things are quiet on the pension front.

Research Council

Marshall Posner reported that the Research Council is busy reviewing the various funding requests. A total of 28 proposals have been submitted.

Mel Bartlett pitched the ASB's request for an experience study on commuted values. A response is expected at a later date.

The Research Council will be tackling mortality improvement studies. It was suggested to try and develop tables that can be used across practice areas. Marshall volunteered for the review.

114.12 Updates from various practice committees

Committee on the Appointed/Valuation Actuary: Nothing new to report. The committee presented comments to OSFI on LICAT, will be presenting comments on seg funds, reviewed CLIFR documents. Volunteers will be identified to draft an educational note on the role of the AA.

Committee on Workers' Compensation: CWC is receiving feedback from stakeholders on its IFRS 17 educational note.

Committee on Risk Management and Capital Requirements: CRMCR coordinated the CIA's response to OSFI on LICAT/MCT 2023. It is also working on a financial condition testing survey to appointed actuaries designed to improve the guidance (will be included in its annual letter). CRMCR is having conversations with OSFI on guideline B-2. It will coordinate the CIA's submission to OSFI on seg funds. Lastly, it provided comments to the Enterprise Risk Management Practice Committee on two practice resource documents, namely *Actuarial aspects of ERM*, and on another on risk appetite.

Committee on Pension Plan Financial Reporting: already covered. PPFRC is working on its annual educational note on annuity guidance.

Committee on Property and Casualty Insurance Financial Reporting: PCFRC is working with CLIFR on documents related to expense allocations under IFRS 17 and disclosures. It reviewed the proposed mandate for the recoverability of acquisition expenses. It looked at the document

on fair value and the exposure draft on the role of the appointed actuary in the context of IFRS 17. PCFRC is working on a revision to its note on risk adjustment. The committee is reviewing the proposed B-2 guideline (reinsurance and large risk exposures).

Committee on Life Insurance Financial Reporting: several educational notes are being developed. A meeting was held with audit firms to review a few documents. CLIFR is reviewing comments received during the targeted external consultation on the draft educational note on discount rates (IFRS 17). It continues its efforts on finding a source of data for the Excel tool. CLIFR is working on economic promulgations.

- Educational note on par: expected to be released in April.
- Expense reporting (directly and non directly attributable expenses) (jointly with PCFRC): expected to be released in April.
- Report on fair value: expected to be released in Q3 2021.
- Applications of discount rate, and disclosures: documents are expected to be released in early 2022.
- Recoverability of acquisition expenses (jointly with PCFRC): the mandate will be presented to the Actuarial Guidance Council for approval at its March meeting.

Pierre Dionne has accepted to be the liaison to the Committee on P&C Insurance Pricing.

114.13 Dealing with Conflicts of Interest on ASB

The Chair reported that the Actuarial Profession Oversight Board (APOB) wants to ensure the ASB has good governance practices. To that effect, the APOB Chair prepared a document included in the meeting material. One of the issues flagged is whether CIA rules of professional conduct related to addressing conflicts of interest apply effectively to volunteer activity.

APOB recommended that ASB tidy up the wording in its governance documents (policies and guidelines). The ASB will set up or participate in a working group to address this issue.

It was also suggested to add as a standing agenda item the disclosure of potential conflict(s) of interest. The suggestion of opening ASB meetings to the public could ironically make it more difficult for ASB members to do the right thing since they might be subject to external pressures.

114.14 Webcasts

No new webcasts are being planned.

114.15 Report on Recent/Upcoming Meetings

The ASB received a report on recent meetings involving the ASB and the following was noted:

CIA/ASB/Retraite Québec (January 27, 2021)

- The following topics were discussed: update on ASB work, activities of PPFRC, Retraite Québec's annual note (range of acceptable practice of assumptions in valuation reports), submission by the Pension Practice Committee, stabilization provision, changes to the multi-lateral agreements between provinces.
- Retraite Québec is working on a study on the preparedness to retirement.
- Other topics discussed included the merger of large plans (CAAT), COVID-19, and the participation of older employees in the workforce.

CIA/ASB/AcSB/AASB (February 3, 2021)

- Topics discussed included: access to accounting standards by actuaries, updating the Joint Policy Statement, and the importance of liaison/collaboration between the two professions.

Actuarial Guidance Council (January 12 and February 9, 2021)

- AGC approved the mandate and membership of the Committee on P&C Insurance Pricing (transfer from PDC to AGC), as well as new PPFRC members.
- Approved the release of a revised educational note on accounting discount rate (pensions).
- AGC is developing a member survey on the dissemination of guidance material in innovative ways. The survey is expected to be launched in mid-March.
- The Chair drafted an informal document on the liaison role.
- AGC is developing the structure for sharing AGC documents using OneDrive.
- AGC discussed updating the educational note on financial condition testing, based on the results of a survey to appointed actuaries. Updates will be incorporated in CRMCR's annual letter, expected to be released in May.

114.16 Future Meetings

The ASB confirmed its intended upcoming meeting schedule as follows:

April 13, 2021 – 10:00 a.m. - 4:00 p.m.

June 22, 2021 – 10:00 a.m. - 4:00 p.m.

These meetings will be “virtual” meetings until further notice.

114.17 Other Business

There being no further business, the meeting concluded at 3:17 p.m. The next regularly scheduled meeting of the ASB will take place on April 13, 2021 via videoconference.