

ACTUARIAL STANDARDS BOARD (ASB) MEETING N° 115
APRIL 13, 2021
VIDEOCONFERENCE
10:00 A.M. – 15:50 P.M.

Present: Mel Bartlett
Thierry Chamberland
Renée Couture
Pierre Dionne (*joined at 12:45 p.m.*)
Stéphanie Fadous
Azmina Jiwani
Jamie Jocsak
Josephine Marks, *chair*
Simon Nelson
Marshall Posner
Lesley Thomson
Yun (Bill) Xu
Michel Simard, *ex officio*
Steve Easson, *ex officio*
Dean Newell, *guest*

Staff: Josée Racette

Guests: Mario Robitaille for item 6b; Kelley McKeating for item 6c; Charly Pazdor, James Koo, and Dani Goraichy for item 6d; Jimmy Dang for item 9; all at the invitation of the Chair.

The Chair opened the meeting and expressed her pleasure at the 98-99% attendance record achieved over the past year as reported to APOB and the CIA Board.

115.1 Approval of Agenda

An item on discount rates was added to the agenda under item 5.

Motion: That the agenda be approved as amended.

Carried

115.2 Previous Minutes

The minutes from the March 2, 2021 meeting were reviewed.

A few minor editorial changes were proposed.

Motion: That the minutes of ASB meeting N° 114 held on March 2, 2021 be approved as amended.

Carried

115.3 Email votes

There were no electronic votes since the last meeting.

115.4 Disbanding Designated and Working Groups

There is no designated or working group to disband.

115.5 Review of Action Items

All action items were reviewed.

Issues that should be considered as part of the review of Part 3000: nothing has been noted.
IFRS 17 and promulgation issues: this item will be covered under item 6h.

The investigation into other firms that could provide the information for the calculation of commuted values was discussed by the Committee on Pension Plan Financial Reporting (PPFRC). It was agreed to defer the issue pending a decision on the direction provided by the DG on Pension Commuted Valued when Bond Yields are Negative.

Research project on pension commencement age: Mel Bartlett reported that the Research Council approved the project. The group will schedule its first meeting in the near future.

Major inconsistencies across practices: A brief discussion was held on the best way for the ASB to discuss the issue of discount rates more holistically in the future. This topic will be added to a future agenda.

Discount rates are used across practice areas. Part 1000 offers guidance to the actuary when forecasting discount rates. It specifically allows for two quite different approaches to be followed. It will be beneficial for ASB members to gain a high-level understanding of the various approaches and issues in each practice area. The actuary must understand the purpose of the valuation.

A framework for the discussion was suggested as follows:

- Review the circumstances under which discount rates need to be forecast under different practice areas
- Review the purposes of the work performed in different practice areas to understand the context;
- Consider the difference in potential mechanics for such a forecast
- Considerations will include: acceptable range of practice, desired level of consistency, rationale for differences across practice areas, transparency, whether any direction to actuaries should form part of our standards or be provided as educational guidance

115.6 Reports from Designated Groups

a) Quinquennial Review of Part 6000

Renée Couture reported that the DG met on March 15. An NOI has been submitted to the Committee on Post-Employment Benefit Plans for comments (expected by mid-May). The DG will present a draft of the NOI to the ASB at its June meeting to be released in time for commentary over the summer. The DG is hoping to present an exposure draft in March 2022 and does not expect major changes to the standards.

b) ISAP 5 and ISAP 6

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

ISAP 6 Enterprise Risk Management Programs

The DG received three sets of comments. All respondents expressed their overall agreement to the introduction of an ERM section in the standards.

The DG used the existing ISAP 6 and showing the proposed modifications for integration in Canadian actuarial standards. Other relevant committees (Enterprise Risk Management

Practice Committee (ERMPC) and the Committee on Risk Management and Capital Requirements (CRMCR)) have not yet had a chance to provide their comments.

The ASB asked the DG to verify if there is any overlap with the sections of the standards dealing with financial condition testing (FCT) and ORSA. One other issue to consider is once ISAP 6 is integrated in the standards, how will actuaries need to demonstrate that they comply?

Ideally, the standards and the educational note will be developed simultaneously. It was suggested that ERMPC would develop the note with support from CRMCR.

An exposure draft for discussion is expected to be presented to the ASB at its June meeting.

c) Quinquennial Review of Part 4000

Kelley McKeating joined the meeting for this item and provided an update. The DG met twice since the last ASB meeting. The DG is close to reaching a consensus on the discount rate assumptions (although the wording has not yet been drafted).

The DG's discussion will then move to income tax adjustments (some commenters had suggested that more specificity be added to the standards). It was clarified that income tax adjustments are different from income tax gross up.

There was some discussion on discount rates. There is no variance about discount rates, therefore there is no issue with the range of practice.

For target benefit plans, assumptions will not be different but there are discussions about considerations (moving to principles-based standards).

The DG is still on schedule to prepare an exposure draft for release later this year.

d) Quinquennial Review of Part 3000

James Koo, Dani Goraichy, and Charly Pazdor joined the meeting for this item. A draft version of the proposed exposure draft was presented for discussion purposes.

The Chair reminded the chairs of the DG of the various steps of the due process as this is an unusual circumstance where three exposure drafts will be combined into one.

It was agreed that the ASB will convene a special meeting in May where the exposure draft will be presented for approval.

Benefit security

The DG is proposing minor changes to the standards. The memorandum that will accompany the exposure draft will cover the comments received and how they were addressed.

Since the three DGs are proposing changes to the same part, any issue will need to be resolved prior to publication. It was suggested that different colours be used to differentiate the changes proposed by each of the DGs.

Meaningful stress testing

The DG is recommending two small changes to the standards (plausible adverse scenarios) 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. The DG feels that there is value in keeping the client involved in the threats facing them.

Quinquennial Review of Part 3000

The Chair of the DG reported that the DG had reached a clear consensus on everything except:

- Designated plans for connected members
- Hypothetical wind-up for target pension arrangements
- Commuted value on wind-up for target pension arrangements

The Chair of the DG provided an overview of the proposed changes and answered some questions.

If changing the glide path, the educational note on best estimate discount rates will likely need to change.

The ASB Chair thanked the three DG Chairs for all their work.

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

Marshall Posner reported that given the urgency, the DG meets once a week. He provided an overview of the draft version of an exposure draft. The yields have come up and provide a reprieve to the work of the DG.

A total of 14 sets of comments were received on the notice of intent, some quite insightful.

Discussions were held with the Bank of Canada as to whether bond yield series could be modified. Discussions were not successful.

There is a desire to minimize the extent of the proposed changes to the standards while addressing the issue with the current approach.

It was suggested that the order of the factors in the formula be changed to make the formula more intuitive.

There was a brief discussion to determine if a promulgation would make the ASB more responsive to a changing environment. It was suggested that the next review of the ASB due process look into the possibility of introducing an expedited process to make amendments to standards in specific circumstances.

Some editorial changes to the cover note to the members were suggested.

It was agreed that the exposure draft will be presented to the ASB at a special meeting to be convened in May. It is proposed that the comment period be until the first or second week of July, with the final standards coming into effect on December 1, 2021.

f) Ultimate Reinvestment Rate (URR)

Stéphanie Fadous reported that the initial communication was published with a comment deadline of May 15, 2021.

g) Role of the Actuary in the IFRS 17 Context

Lesley Thomson reported that the DG has not met in a while, waiting to receive comments on its exposure draft. Comments are expected by May 31, 2021. One set of comments has been received to date.

The DG is recommending that an educational note be developed. The DG reached out to the Committee on the Appointed/Valuation Actuary (AA Committee) for the development of this educational note. The DG has prepared an outline that will be shared with the AA Committee.

The CIA is preparing comments to be presented to OSFI on the OSFI memo to the AA.

Timeline for the final standards: it will need to be coordinated with the DG on IFRS 17, but not until the publication of IAN 100.

h) IFRS 17

Stéphanie Fadous reported that the DG has not met in a while.

The DG is of the view that a promulgation would not be necessary if guidance sufficiently narrows the range of practice.

The Actuarial Guidance Council (AGC) and the Committee on Life Insurance Financial Reporting (CLIFR) have initiated a targeted external consultation and are currently reviewing the comments received on the educational material on the discount rate topic.

The CIA met with the Autorité des marchés financiers and the Office of the Superintendent of Financial Institutions (OSFI) to receive an update on the dispersion results from the most recent QIS.

Some dispersion was noted. It is anticipated that the publication of yield curves will help narrow the range.

115.7 Update from APOB March Meeting

Jamie Jocsak attended the last APOB meeting on behalf of the Chair and provided an update as follows.

- APOB members are pleased to see that the ASB is keeping the lines of communication open with the accounting profession.
- APOB feels that it would be beneficial to seek legal feedback on the issue of fiduciary duty.
- Concern was expressed regarding the monitoring of assumptions used in 2023 after IFRS 17 takes effect and how exactly issues will be handled with the regulator if there are actuaries using assumptions that are considered outliers.
- The ASB should be considering the impact of COVID and the likely higher level of future economic uncertainty and how this is being reflected in actuarial standards being reviewed going forward.
- Rules of Professional Conduct are being reviewed by the CIA Board.

Commuted values: The ASB Chair gave an interview to a journalist who was exploring the idea that the shortage in health care professionals at the end of 2020 was due to them quitting their jobs to get a higher commuted value. The purpose of the interview was to explain the standard-setting process and to clarify the application of the new CV standard. The resulting article did mention the CV issue, but only tangentially as the journalist appeared to understand that it should have had limited impact.

115.8 Dealing with Conflicts of Interest on ASB

Jamie Jocsak provided an update on the APOB discussion on conflicts of interest.

APOB would like the ASB to conduct a full review of its governance documents to ensure that the primary objective of the ASB is more explicit – to protect the public interest. Special attention will be required to ensure it is clear that DG members are covered by the guidelines on conflicts of interest with this objective in mind.

In addition, processes should be strengthened. For example, a requirement could be added that a DG should have a member from a separate area of practice (or even a non-member) to help reduce the possibility of a perceived conflict of interest.

There was some discussion as to whether Rule 5 of the Rules of Professional Conduct applies to volunteer work.

The ASB created a working group to review documentation and processes.

115.9 Update from the Practice Development Council (PDC)

George Wang, the Chair of the PDC joined the meeting for this item.

Azmina Jiwani introduced the topic and noted that the purpose of this session is to provide an awareness of the PDC and emerging areas of practice.

After a brief introduction covering the council mandate, George reported that the PDC has created a new type of document (practice resource document) which is not considered guidance but encourages the sharing of knowledge. Two such documents have been published to date, one on enterprise risk management and the other on climate change. They are featured on a new [webpage](#).

The Board has set up a working group to conduct a review of documents published by the CIA to determine if there should be or could be any restriction for the public to access them.

The PDC's priorities for 2021 are the following:

- Predictive modeling
- Raising the profile of actuaries
- Leadership skills for actuaries (with action items being executed by the Education and Qualification Council)

The PDC Chair feels that the ASB should start giving some thought to a few emerging areas such as predictive modeling, climate change, enterprise risk management, and post-employment benefits. It was noted that initiatives were underway for two of these.

Among the challenges facing the PDC (and the CIA) are marketing, budget, competing with other professions, volunteer time.

The PDC is looking for a chair and a vice-chair for its Individual Insurance Committee.

The ASB Chair thanked the PDC Chair for his presentation.

115.10 Updates from the PDC, the IAC, and the Research Council *PDC (Practice Development Council)*

There was nothing further to add (see item 115.9).

IAC (International Affairs Council)

There was nothing new to report.

Research Council

Marshall Posner reported that the Research Council has met once since the last ASB meeting. It approved the project on pension commencement age.

115.11 Updates from various practice committees

Committee on the Appointed/Valuation Actuary: The committee presented comments to OSFI on LICAT requirements.

It is preparing something on financial condition testing (FCT), considering the change to IFRS 17. FCT should be performed assuming IFRS 17 comes into effect. The CRMCR annual letter made reference to the fact it understands that some companies may not have good models for IFRS 17 testing but should provide qualitative comments about what moving to IFRS 17 might do.

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

Committee on Risk Management and Capital Requirements: Its annual letter was published. CRMCR's focus is now on the upcoming changes to LICAT (under IFRS 17).

Committee on Pension Plan Financial Reporting: The annual educational note on annuity guidance has been published.

Ongoing discussion on the educational note on best estimate discount rates, around updating it and whether there should be additional guidance around an acceptable range of discount rates or an acceptable range of underlying assumptions that are used in developing the discount rates. Is there a need to constrain practice? No examples have been provided by regulators. Retraite Québec published its guidance on valuation assumptions last week and they made a direct reference to the educational note.

PPFRC will review the exposure draft from the DG on Pension Commuted Values when Bond Yields are Very Low or Negative.

Committee on Property and Casualty Insurance Pricing: Nothing new to report.

Committee on Property and Casualty Insurance Financial Reporting:

PCFRC is dealing with IFRS 17 issues such as reviewing the fair value draft educational note, working on a draft educational note on liability for remaining coverage, updating the draft educational note on risk adjustment, working with CLIFR on the guidance on disclosure, and they reviewed the IFRS 17 memo to the AA. PCFRC provided comments to the Enterprise Risk Management Practice Committee on a document on risk appetite. PCFRC started discussing internal reinsurance agreements (within companies) and the impact of IFRS 17 on them. Work has begun on the fall letter. PCFRC is planning a session at the AA Seminar. PCFRC is working on a reference curve and monitoring the work of CLIFR.

Committee on Life Insurance Financial Reporting:

Discount rate: recommendations are being formalized, then discuss with AGC and other committees. The goal is to publish the tool in June.

Par draft educational note and draft expense report: they were approved by the AGC and will be published soon.

Fall letter: the work has started.

Fair value: a webcast was recently held.

Disclosures under IFRS 17, discount rate applications: the work is progressing.

Cost of guarantees for par: a working group is being formed to develop guidance.

115.12 Webcasts

No new webcasts are being planned.

115.13 Report on Recent/Upcoming Meetings

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

Actuarial Guidance Council (March 9 and April 6, 2021)

- AGC approved the release of a draft explanatory report on expenses.

- Received input from practice committee chairs on next steps, if any, concerning COVID-19 articles published on the CIA hub last year. The AGC feels the CIA effort should not be isolated to a committee or a certain council.
- AGC conducted a member survey on the dissemination of guidance material in innovative ways. A total of 158 responses were received. The AGC Chair will report back on the results in the near future.
- Succession planning: The current AGC Chair is planning to remain until the end of June 2022, at which point the current vice-chair will be taking over as chair. Ideally, a P&C practitioner would take over as vice-chair June 2022. However, the AGC is having trouble recruiting P&C practitioners.
- CRMCR is preparing comments on the seg funds QIS4 and made a submission to OSFI on guideline B-2.

115.14 Future Meetings

The ASB confirmed its intended upcoming meeting schedule as follows:

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

Dates for the second half of 2021 will be determined soon.

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

115.15 Other Business

There being no further business, the meeting concluded at 3:40 p.m. The next regularly scheduled meeting of the ASB will take place on June 22, 2021 via videoconference.