

ACTUARIAL STANDARDS BOARD (ASB) MEETING N^o 117
JUNE 22, 2021
VIDEOCONFERENCE
10:00 – 16:40

Present: Mel Bartlett
Thierry Chamberland (*left at 16:00*)
Renée Couture
Pierre Dionne
Stéphanie Fadous
Azmina Jiwani
Jamie Jocsak
Josephine Marks, *chair*
Simon Nelson
Marshall Posner (*left at 16:30 p.m.*)
Lesley Thomson
Yun (Bill) Xu (*left at 15:00*)
Michel Simard, *ex officio*
Steve Easson, *ex officio*
Dean Newell, *guest (joined at 10:15)*

Staff: Josée Racette

Guests: Kelley McKeating for item 6a; Charly Pazdor, James Koo, and Dani Goraichy for item 6d; Steve Bocking for item 6e; Jimmy Dang for item 6f; all at the invitation of the Chair.

The Chair opened the meeting and noted that 5-minute breaks have been included throughout the agenda.

It was also noted that a few ASB members will be excusing themselves throughout the day for short periods.

She reported that the Actuarial Profession Oversight Board (APOB) is encouraging us to identify potential candidates for the role of ASB chair, given that the current chair's term has already been extended by one year and will end in June 2022. A brief discussion was held regarding the requirements and expectation for this role and the possible impact that the pandemic has had on candidates being willing to volunteer.

The ASB Chair was pleased to announce that Thierry Chamberland has been appointed by APOB as ASB Vice-chair until December 31, 2021.

117.1 Approval of Agenda

Motion: That the agenda be approved as presented.

Carried

117.2 Previous Minutes

The minutes from the April 13, 2021 meeting were reviewed.

A few minor editorial changes were proposed.

Motion: That the minutes of ASB meeting N° 115 held on April 13, 2021 be approved as amended.

Carried

The minutes from the May 26, 2021 meeting were reviewed.

A few minor editorial changes were proposed.

Motion: That the minutes of ASB meeting N° 116 held on May 26, 2021 be approved as amended.

Carried

117.3 Email votes

There were no electronic votes since the last meeting.

117.4 Disbanding Designated and Working Groups

There is no designated or working group to disband.

117.5 Review of Action Items

All action items were reviewed. The list will be tidied up.

Issues that should be considered as part of the review of Part 3000 relates to the investigation into other firms that could provide the market-based information for the calculation of commuted values: the Committee on Pension Plan Financial Reporting (PPFRC) is aware of the issues but is currently reviewing priorities as it transitions to the new chair (Gus Van Helden).

IFRS 17 and promulgation issues: this item will be covered under item 8.

Research project on pension commencement age: Mel Bartlett reported that a first draft of the request for proposal is being reviewed. The project oversight group is scheduled to meet in the near future. Mel reported that the Research Council is cautiously optimistic that the request for proposal for the retirement experience study will be ready in the next month or two.

117.6 Reports from Designated Groups

a) Quinquennial Review of Part 4000

Kelley McKeating joined the meeting for this item and provided an update. The group has made good progress on reviewing and discussion relevant issues, although preparation of the exposure draft has not yet commenced. An exposure draft is expected to be ready by the end of the year.

On some issues, the DG is split into two camps (for example, select period for discount rate). The DG decided to document the arguments to help it come to a consensus.

The DG now has a pretty good idea of where it wants to go regarding target benefit plans.

Currently the wage assumption matches what is in the commuted values standards (inflation plus 1%). The data suggests that it would be appropriate to lower the spread margin to 0.75% to be more in line with historical data. The wage assumption is a material assumption in the AE practice area and it could have a material impact on the valuation. ASB members would support such a change (this assumption is not widely used in the pension area). No strong objection is expected from the DG on commuted values. It was noted that the assumption for the Canada Pension Plan currently uses something close to 1%.

There was a discussion about other professionals using our standards (is it a good or bad thing?). Actuaries are aware that if they have difficulty interpreting the standards, they can refer to Part 1000 General, which other professionals would not know about.

It was noted that the CIA Board is discussing access to CIA documents by the general public, although it is expected that standards and guidance will remain available to all.

Role of the Actuary in the IFRS 17 Context

An exposure draft was released jointly with the DG on IFRS 17 earlier this year, with a deadline for comments of May 31, 2021.

There was a session on the topic at act21. The most substantive comment received concerns the wording of the new opinion (i.e., policy liabilities are “appropriate”... for the purpose). Some actuaries seem to have difficulty accepting that the definition of “appropriate” under IFRS 17 is slightly different from its use in the current opinion, where it would now mean appropriate for inclusion in financial statements prepared in accordance with IFRS 17. The whole issue is mostly about education, both for actuaries and for users of financial statements. Possible resolutions include adding a definition of the term in the standards, or changing the wording of the opinion to use a word other than “appropriate” (which was not previously a defined term).

Another issue pertains to valuations not subject to IFRS 17 (but currently relying on Part 2000 of the SOP and/or using the Canadian Asset Liability Method (CALM)): The DG on IFRS 17 had discussed the issue and determined that additional standards (beyond what is in Part 1000) were not required for these valuations. However, there might be a need to develop an educational note. It was noted that the Committee on Property and Casualty Insurance Financial Reporting (PCFRC) has formed a subcommittee to look into the issue.

b) IFRS 17

Stéphanie Fadous reported that the DG met a few weeks ago to go over the range of outcomes (risk-free rate and liquidity premium) resulting from QIS 2 shared by the Office of the Superintendent of Financial Institutions (OSFI) and the Autorité des marchés financiers (AMF), for both life and P&C areas of practice. The objective was to determine whether a promulgation would be appropriate.

Dispersion was observed for the risk-free rate, especially beyond the observable period. For the liquidity premium, both the observable and the ultimate rates saw some dispersion. However, there did not seem to be any company using a rate higher than the guidance.

It was noted that the Committee on Life Insurance Financial Reporting (CLIFR) is preparing an update to the draft educational note on discount rates, as well as having a third party publish discount curves on a monthly basis. It is hoped that it will help narrow the range of practice. It was noted that it would be difficult to promulgate the liquidity premium.

Safe harbours (for smaller companies that may not have sufficient resources given the newness of IFRS 17): the issue was briefly discussed. The ASB members agreed that there is a reasonable range of assumptions from which actuaries can choose.

The ASB Chair reported that for the third time, AMF has reached out to the ASB and the DGs, strongly encouraging them to promulgate discount rates. The ASB agrees that specifying a maximum rate is in the public interest, however it is not apparent that promulgation is required to meet this objective.

c) 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.

It was noted that the memo to members should include the comments from all three DGs, not just those of DG#3.

Charly Pazdor noted that some commenters indicated that they would wait for the actual wording of the proposed changes to be made available before commenting. He provided an overview of the most contentious issues raised in the comments received and the DG's responses. Some of those issues included the actuarial valuation for designated plans, commuted value standard for target pension arrangements (TPA) on plan wind-up, etc. There was a high degree of consensus among DG members on most of these topics.

ASB members agreed that a lot of work and valuable information was included in the memo to members. A few minor edits were suggested. It was also agreed that the information pertaining to the other two DGs would be included in the memo to members, to be signed by all three DG chairs.

James Koo provided an overview of the feedback received on the notice of intent (NOI) and the DG's responses. The ASB pondered the question of whether the actuary has a fiduciary duty when performing an actuarial valuation and making recommendations as to funding. It also noted that the public's perception is that the role of the actuary includes the protection of the interests of plan members.

It was agreed that there is no need to convene a special meeting to approve the exposure draft. The approval will be sought via an email vote (and a special meeting convened if two or more members request it).

The Chair thanked the three DG chairs (and their team) for all their work.

d) Ultimate Reinvestment Rate (URR)

Steve Bocking joined the meeting for this item. He stated that an initial communication was published in late March, with a deadline for comments of late May. No comments had been received.

The DG recommends that the ASB approve the release of the final communication, with an effective date of October 15, 2021. Steve also noted that the Actuarial Guidance Council had approved the publication of a revised educational note, pending the approval of the final communication by the ASB.

Motion: That the *Final 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 an effective date of October 15, 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

The ASB Chair thanked Steve and the DG members for their work.

e) Quinquennial Review of Part 6000

Jimmy Dang joined the meeting for this item. He reported that the NOI had been translated and reviewed.

Jimmy provided an overview of the NOI stating the goal of the quinquennial review and the fact that the DG does not expect to make material changes to the standards. The main issues identified by the DG are Section 6300 Full or partial wind-up, which is not very common in the post-employment benefits practice area. The DG proposes a few options to streamline the standards.

In addition, the DG intends to carefully review the level of specificity regarding the practice, especially in light of the fact that there is not much regulatory guidance.

A few minor edits were suggested.

The DG expects to present an exposure draft in Q2 2022, and the final standards by the end of 2022.

Motion: That the *Notice of Intent – Quinquennial review of Part 6000 – Practice-Specific Standards for Post-Employment Benefit Plans* be approved for release as presented, with a comment deadline of September 17, 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

The Chair thanked Jimmy and his team for their work.

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

Marshall Posner reported that an exposure draft was published, with a deadline for comments of July 30, 2021. No comments have yet been received.

He also noted that the bond yields have started drifting down again so the DG will monitor in case faster action is warranted.

g) ISAP 6

The ASB Chair indicated that although the DG had intended to present its exposure draft, it is now aiming to present it for approval at the September ASB meeting.

117.7 Update from APOB June Meeting

An update was provided as follows:

- As reported earlier, APOB confirmed the nomination of Thierry Chamberland as Vice-Chair of the ASB.
- There was some discussion about the difficulty in recruiting a chair for various boards, including the ASB. It is a big and demanding responsibility. Some of the reasons that might explain the reluctance from potential candidates to step forward are: work pressures, the current COVID-19 situation, and the fact that the individual needs the understanding of his employer. It was also noted that the lack of face-to-face meetings takes away some of the non-tangible benefits of this type of volunteer work.
- There was a discussion as to whether to seek a legal opinion on the fiduciary role of the actuary in the pension field. If doing so, the context would need to be very explicit. ASB members are concerned that we would obtain different opinions from different lawyers

(and could potentially shop for an opinion based on how the law firms have leaned in the past) or that the wording of the opinion would not be useful in the end. It is up to the profession to figure out where it wants to be (pension actuaries in Canada do not believe that they are fiduciaries, nor do they want to be).

- APOB inquired about the progress made on the review of ASB governance documents regarding conflicts of interests and look forward to an update in the fall.
- APOB expressed concerns about volunteer fatigue.
- There was a presentation on climate change from members of the CIA Climate Change and Sustainability Committee. It was also noted that the IAA is very active on climate change.
- APOB is always very supportive of the work of the ASB.

117.8 Discount Rates Across Practice Areas

It was stated that this part of the meeting was to be viewed primarily as an education session on the topic.

The Chair reiterated that regulators are aiming for a narrowing range of the practice in pensions and IFRS 17.

An overview of discount rates by practice areas was provided.

Part 1000 states that the actuary can either look at long-term averages or current rates to set discount rates (depending on the context).

In insurance, under IFRS 17, paras 1620.35 and 36 do not apply. The actuary can either use a top-down or bottom-up approach. Since accounting rules are different from current actuarial practice, the setting of discount rates is also different.

In P&C, as durations are much shorter (three to four years), forecasting is not really required.

In workers' compensation, it was noted that a separate discount rate is used for funding purposes. Most boards maintain two sets of books (one for funding purposes, and one for financial statements).

In the pension field, there are discount rates determined for three different purposes, namely: funding (going concern), commuted values, and accounting (for financial statements).

For actuarial evidence work, discount rates are used for actuarial evidence itself, marriage breakdown, and the criminal rate of interest.

It was noted that CLIFR, in partnership with a third-party provider, has arranged for the monthly publication of reference curves for risk-free rates in Canada.

After some discussion, although harmonization between practice areas would be desirable, it may not be possible. The ASB agreed to strive to reach a certain level of consistency where it applies.

However, the actuary should be able to reconcile and explain how the discount rates used were derived, for what purpose, and whether they did so within the constraints of accounting standards.

In summary:

- Structure to address inconsistencies
- What is the current situation/starting position?

- Think through technical issues to address

The ASB briefly discussed whether a group should be created to identify inconsistencies, determine which ones can be explained and which ones should be eliminated. Should the CLIFR note be turned into something more generic?

The development of a summary on how to determine the risk-free rate over the unobservable period would be helpful (including the where, purpose, how it is done).

117.9 Reliance on Outside Data Providers

The ASB followed up on a discussion that took place during the last meeting about reliance on outside data providers (references to outside indices) in our standards. It was felt that next steps should be to:

- Identify where it occurs; and
- Identify ways to address it (to reduce our vulnerability to third party actions that are outside of our control).

In Part 3000, our standards rely on CANSIM series, FTSE Russell, and Fiera Capital. Part 4000 also relies on CANSIM series.

The insurance standards do not currently have any references to outside indices.

It was suggested that a group comprised of pension and actuarial evidence practitioners be formed to address the issue (i.e., to identify a single approach for both areas of practice). The ASB also briefly discussed whether a stop gap measure was warranted. It was decided to focus on a more permanent solution unless circumstances dictate otherwise.

117.10 Use of Standards of Practice by Other Professionals

This item was deferred to the next meeting.

117.11 Update from AcSB

The accounting profession has reached out to discuss the potential review of the Joint Policy Statement. A meeting has been scheduled for June 23.

Pension issues will also be represented – one source of frustration and inefficiency is that accountants are redoing our work rather than relying on it.

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

PDC (Practice Development Council)

There was nothing to report as the PDC has not met since the last ASB meeting. The PDC now has the authority to limit the distribution of practice resource documents to CIA members only.

IAC (International Affairs Council)

Micheline Dionne has been elected as President-elect of the IAA (effective Jan 1, 2022).

Papers are being developed on the following topics:

- Pandemic
- Future actuaries in non-traditional areas

Minimum education standards are being worked on by the Education Committee.

The IAC is discussing a formal evaluation process for CIA candidates to various positions at the IAA to help with the nomination process

Reorganization at the IAA: four full forums (ERM, P&C, life, and pensions) and several virtual forums.

Some papers were released on the following topics and are being reviewed by the IAC: climate scenarios, employment benefits, and IAN 100.

Research Council

No update was available.

117.13 Updates from various practice committees

Committee on the Appointed/Valuation Actuary: The committee is reviewing and providing input on all IFRS 17 guidance (both from the actuarial profession and from OSFI).

It presented comments to OSFI on its memorandum to the AA, and LICAT requirements.

A new C-1 survey is being initiated.

The Committee discussed the decision by the CRA to disallow the CSM from tax reserves (disconnect between GAAP liabilities and tax).

Committee on Life Insurance Financial Reporting: The Committee is hard at work developing IFRS 17 guidance.

It assisted the DG on the ultimate rate of reinvestment.

Discount rate: CLIFR is preparing to publish an update to its discount rate note.

Mortality improvement: a group is looking at updating the MI 2017 table. This work would impact both life insurance and pension areas of practice.

Committee on Property and Casualty Insurance Financial Reporting (PCFRC): The Committee is very busy developing IFRS 17 guidance on discount rate, risk adjustment, fair value, liability for remaining coverage, disclosures, the Fall letter, and a presentation at the AA Seminar.

It is also reviewing guidance developed by other committees.

Committee on Property and Casualty Insurance Pricing: The Committee is working on an educational note for trends. It is also considering preparing a document on artificial intelligence in P&C ratemaking (there is some angst amongst regulators on the topic as they wish to ensure it does not discriminate against certain segments of the population).

Committee on Pension Plan Financial Reporting: There is nothing new to report, other than the fact that the committee is transitioning to a new chair on July 1, 2021.

117.14 Gender Equality

Michel Simard reported that a recent Quebec Superior Court decision in January 2021 invalidated a few sections of the Quebec Civil Code pertaining to sex identification and gender identity. A notice of appeal was immediately presented by the Quebec government, which temporarily suspended the effects of the decision. Retraite Québec, the Quebec pension regulator, is currently evaluating the impact of such a decision on its regulations regarding pensions. Retraite Québec informally inquired about whether the CIA and ASB are considering an initiative to address this potential issue, especially in the standards applicable to transfer values. In addition, many provinces use unisex tables and a potential prohibition to use gender may have a significant impact on car insurance premiums outside of Quebec.

After a discussion with various practitioners, the CIA created a Task Force on Gender Identity. The mandate has been drafted and recruiting for a chair and a few members has started. Staffing is expected to be completed by the end of July. The work of the task force will be supported by Chris Fievoli. The ASB will be kept apprised of all developments. The ASB can propose the appointment of a liaison if it so desires.

117.15 Webcasts

No new webcasts are being planned. The DG on the role of the Appointed Actuary in the context of IFRS 17 held a well-attended session at act21.

117.16 Report on Recent/Upcoming Meetings

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

Actuarial Guidance Council (May 11 and June 8, 2021)

- In March, the AGC conducted a membership survey on delivery mechanisms and content of guidance material. As a result, the AGC will look into a monthly entry in CIA News emails alerting members about new guidance and standards published (perhaps a joint AGC-ASB effort).
- The AGC is reviewing the process for approving annuity proxy guidance (currently comprised of three steps).
- The AGC is conducting an email vote for the approval of the CLIFR update to the discount rates note.
- The AGC had a few requests to add non-CIA members appointed to AGC groups. There have been a few appointed to DGs in the past.

CIA Board (June 14-15, 2021)

- The Board approved the implementation of the new education pathways.
- Various reports from councils.
- The CIA ceased its memorandum of understanding with the SOA.
- Approval of a new AGC member, effective July 1, 2021.

117.17 Future Meetings

The ASB confirmed its intended upcoming meeting schedule as follows:

September 8, 2021 – 10:00 a.m. – 4:00 p.m.

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

November 24, 2021 – 10:00 a.m. – 4:00 p.m.

There will be no face-to-face meetings until 2022. ASB meetings will be “virtual” meetings until further notice.

117.18 Other Business

There being no further business, the meeting concluded at 16:33 p.m. The next regularly scheduled meeting of the ASB will take place on September 8, 2021 via videoconference.