

Memorandum

To: Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries and Other Interested Parties

From: A. David Pelletier, Chair
Actuarial Standards Board
James Jeffery, Chair
Designated Group

Date: June 20, 2013

Subject: **Minor Revisions to the Standards: Linkages between General and Practice-Specific Standards**

Document 213046

INTRODUCTION

The Actuarial Standards Board (ASB) approved the attached additions to the practice-specific standards on June 13, 2013.

The ASB considers the additions to be minor in nature and that section D of the Policy on Due Process for the Adoption of Standards of Practice is applicable.

BACKGROUND

As noted in paragraphs 1120.12, 1120.13, and 1120.14, the general standards apply, with noted exceptions, to *all* areas of actuarial practice. The intent of the practice-specific standards is to narrow the range of practice considered acceptable under the general standards, and in exceptional cases to define as acceptable a practice that would not be acceptable under the general standards.

In other words, it is the general standards that govern and provide comprehensive guidance in all areas of actuarial practice. The role of the practice-specific standards is generally limited to describing the narrowing and exceptions applicable in a specific practice area. The practice-specific standards are not intended to provide a comprehensive description of the standards applicable to work in the specific practice area involved.

The ASB has become concerned that some actuaries and, in some cases, external parties may misunderstand the relationship between the general and practice-specific standards, and may believe or expect that the practice-specific standards are or should be an essentially complete and self-contained description of the standards applicable to work within the scope of a practice-specific standard.

Accordingly, the attached additions to the practice-specific standards are intended to draw the attention of all readers of the standards to the fact that all actuarial work is subject to the General Standards of Practice which provide comprehensive guidance for all practice areas, subject only to certain practice-specific limitations or exceptions.

EFFECTIVE DATE

The effective date of the revised Standards of Practice, with the exception of section 4100, is June 30, 2013. The revised section 4100 will be effective on December 31, 2013.

EARLY IMPLEMENTATION

The additions to the standards represent a clarification and do not introduce any conflicts or changes in the applicable standards themselves. Hence, early implementation is appropriate.

DUE PROCESS

The ASB's Policy on Due Process for the Adoption of Standards of Practice (section D – Minor Revisions to Standards) was followed in the development of these additions to the standards.

ADP, JJ

2110 SCOPE

.00 Part 1000 applies to work within the scope of this section 2100.

- .01 Sections 2100, 2200 and 2300 apply to the valuation of the insurance contract liabilities and of the reinsurance recoverables in an insurer's financial statements when the intent is that those statements be in accordance with accounting principles generally accepted in Canada. Effective for financial years beginning on or after January 1, 2011, the Canadian Institute of Chartered Accountants Handbook will contain both Canadian generally accepted accounting principles applicable to publicly accountable enterprises (being International Financial Reporting Standards incorporated into the Canadian Institute of Chartered Accountants Handbook) and Canadian generally accepted accounting principles applicable to private enterprises.
- .01.1 Part 2000 does not apply to post-employment benefit plans covered by the Practice-Specific Standards for Post-Employment Benefit Plans and does not apply to personal injury compensation plans covered by the Practice-Specific Standards for Public Personal Injury Compensation Plans.
- .02 Section 2100 applies to all kinds of insurance.
- .02.1 Sections 2200 and 2300, following, apply respectively to
property and casualty insurance, and
life and health (accident and sickness) insurance; that is, to insurance with respect to the life and health of persons other than corporations.
- .03 Sometimes, however, techniques described in one section may be useful for the insurance to which the other section applies. For example, while a simple technique is usually appropriate for valuation of life and health insurance claim liabilities, the more sophisticated techniques for valuation of property and casualty insurance claim liabilities may be appropriate for life and health insurance whose claim development is complex. Another example is that a simple technique may be appropriate for travel insurance and other short-term policies sold by property and casualty insurers.

2420 SCOPE

.00 Part 1000 applies to work within the scope of this section 2400.

- .01 This section 2400 applies to an appointed actuary who, pursuant to
the federal Insurance Companies Act, is the actuary of a company or society,
the federal Insurance Companies Act, is the actuary of the Canadian branch of a foreign company, or
a provincial Act, has the access to information, protection against civil liability, and duties in an insurer, that are substantially the same as those of the appointed actuary in the federal Act.

2510 SCOPE

.00 Part 1000 applies to work within the scope of this section 2500.

- .01 This section 2500 applies to the appointed actuary of an insurer when preparing a report on the insurer's financial condition pursuant to law.

2610 SCOPE

.00 Part 1000 applies to work within the scope of this section 2600.

- .01 This section 2600 applies to the derivation of indicated rates for an insurance contract of property and casualty insurance written by an insurer, a reciprocal insurance exchange or an underwriting syndicate.
- .02 This section 2600 does not apply to the derivation of indicated rates for public personal injury compensation plans covered by the Practice-Specific Standards for Public Personal Injury Compensation Plans.
- .03 This section 2600 applies to the derivation of indicated rates for any entity, such as a residual market mechanism or an advisory organization, which derives indicated rates for an insurance contract to be written by an insurer, regardless of whether or not that entity is itself an insurer.
- .04 This section 2600 applies to the derivation of indicated rates, but not to the recommendation or selection of rates to be charged. The recommended or selected rates may reflect considerations beyond those set forth in this section 2600.
- .05 This section 2600 also applies to the derivation of indicated rates for insurance risks accepted by a property and casualty quasi-insurer, similar to insurance risks accepted under an insurance contract. In this section 2600, "property and casualty quasi-insurer" means an entity that assumes insurance risks that a property and casualty insurer may assume, without having the legal form of an insurer. Examples of property and casualty quasi-insurers include
- federal or provincial crown corporations or agencies acting in a capacity similar to a property and casualty insurer,
 - providers of extended warranties, and
 - self-funding mechanisms, such as those created by members of a professional association, or entities that retain some or all of their property and casualty insurance risk.

3100 SCOPE

.00 Part 1000 applies to work within the scope of this part 3000.

- .01 The standards in part 3000 apply as follows:
- Section 3200 applies to advice that an actuary provides regarding the funded status or funding of a pension plan, except where such advice is with respect to:
 - The wind-up, in full or in part, of a pension plan; or
 - The financial reporting of a pension plan's costs and obligations in the employer's or the pension plan's financial statements;
 - Section 3300 applies to advice that an actuary provides on the funded status or funding with respect to the wind-up, in full or in part, of a pension plan;
 - Section 3400 applies to advice that an actuary provides with respect to financial reporting of a pension plan's costs and obligations in the employer's or the pension plan's financial statements; and
 - Section 3500 applies to advice that an actuary provides regarding the computation of commuted values in the circumstances described in subsection 3510.

The wind-up of a pension plan involves the settlement of plan benefits and distribution of all plan assets. The cessation of benefit accruals or termination of a plan, not involving the settlement of plan benefits and distribution of plan assets, would not constitute a plan wind-up.

- .02 The standards in sections 3200 through 3400 apply to advice with respect to a pension plan, including any arrangement that provides retirement income to its members, whether funded or not, whether registered or not, and whether in the private or public sector, except for:
- A defined contribution pension plan (noting that the standards do apply, however, to any pension plan that is a hybrid of a defined contribution pension plan and a defined benefit pension plan);
 - A pension plan whose benefits are all guaranteed by a life insurer; and
 - Social security programs such as the Canada Pension Plan, Québec Pension Plan, and the pension provided by the federal Old Age Security Act.

4100 SCOPE

.00 Part 1000 applies to work within the scope of this part 4000.

- .01 The standards in part 4000 apply to actuarial evidence work.
- .02 With respect to actuarial evidence work:
- An expert is an actuary who is qualified by knowledge, skill, experience, training, or education to render an opinion or otherwise testify concerning the matter at hand; and
 - An expert opinion is a conclusion drawn from actuarial knowledge and experience or from the application of one or more actuarial methods to a body of data.
- .03 An expert opinion may be provided in a written report, oral or written testimony, or both.

.04 The provision of an expert opinion which is actuarial evidence work and which involves a practice area such as insurance or pensions, is work in both that practice area and the actuarial evidence practice area. The actuary would refer to the standards applicable to that practice area, in addition to the standards in part 4000.

Examples

.05 Examples of actuarial evidence work are:

- Determination of the capitalized value of pecuniary losses arising as a result of an event such as personal injury, death, or wrongful dismissal from employment;
- Determination of capitalized values of pensions in marriage breakdown proceedings;
- Expert opinions given in litigation arising from work completed in respect of a pension plan or an insurance business;
- Work as an expert advisor to a mediating official, such as a judge;
- Determination of effective rates of interest in cases of alleged charging of criminal interest rates; and
- Provision of an expert opinion with respect to another actuary's work that is being challenged or in cases of alleged professional negligence.

.06 Work in a practice area, such as insurance or pensions, may be performed in an adversarial environment but not involve an anticipated expert opinion for a dispute resolution proceeding. Such work would not normally be considered to be actuarial evidence work. Examples of such work, where the standards in part 4000 are not applicable, are:

- Pension plan valuations or costings related to union negotiations, or actuarial assistance with the merger of pension plans or the valuation of a pension plan in connection with the sale of a business; and
- Actuarial assistance with the valuation of an insurer, the merger of insurers, or the acquisition of an insurer.

Fact evidence

.07 The standards in part 4000 do not apply to the work of an actuary who is providing only fact evidence, and not an expert opinion. For example, an actuary testifying in his or her own defense in a proceeding related to professional negligence would normally be providing fact evidence, and not an expert opinion. As another example, an actuary may be providing evidence in a dispute resolution proceeding regarding his or her involvement in work performed in a practice area such as insurance or pensions. If the circumstances were not adversarial and there was no anticipation of a dispute resolution proceeding at the time the work was performed, the actuary's evidence in the dispute resolution proceeding would normally be fact evidence and not an expert opinion. The standards in part 4000 would apply, however, if the actuary's role includes providing an expert opinion in a dispute resolution proceeding, where such opinion is expected or required to be independent.

Litigation advice

- .08 The terms of an appropriate engagement may require that the actuary provide only litigation advice, other than an expert opinion that is expected or required to be independent, such as assisting counsel or a client in identifying and analyzing legal or actuarial issues, advising in connection with relevant case law, and preparing for cross-examination of opposing witnesses. In such cases, provided that the actuary makes it clear that the work product does not represent an expert opinion that is actuarial evidence work, the standards in part 4000 would not apply.
- .09 The terms of an appropriate engagement may require that the actuary provide both litigation advice that is not actuarial evidence work and also an expert opinion. If work related to the expert opinion meets the definition of actuarial evidence work, then the standards in part 4000 would apply to that aspect of the engagement.

Additional guidance

- .10 The actuary may be uncertain as to whether all or part of the engagement meets the conditions to be classified as actuarial evidence work. In such case, the actuary would seek clarification from the chair or vice-chair of the Committee on Actuarial Evidence of the Canadian Institute of Actuaries and the standards in part 4000 would apply for that portion of the engagement that is actuarial evidence work.

5100 SCOPE

.00 Part 1000 applies to work within the scope of this part 5000.

- .01 The standards in this part apply to an actuary's work on the valuation of benefits liabilities of a public personal injury compensation plan, including its benefits liabilities in respect of a self-insured employer, and to any other items required under the terms of an appropriate engagement for a public personal injury compensation plan, for the purpose of its financial statements and for the purpose of providing input into its funding arrangements.
- .02 The standards in this part do not apply to an actuary's work for an employer on the valuation of benefits liabilities and other related items in respect of its employees who are covered by a self-insured element of a public personal injury compensation plan, where such work is covered by the Practice-Specific Standards for Post-Employment Benefit Plans. Nevertheless, the standards in this part may provide useful guidance for such work.

6100 SCOPE

.00 Part 1000 applies to work within the scope of this part 6000.

- .01 The standards in part 6000 apply as follows:
- Section 6200 applies to advice that an actuary provides regarding the funding, funded status, financial position, or the financial condition with respect to a post-employment benefit plan, except where such advice relates to items covered by section 6300 or section 6400;
 - Section 6300 applies to advice that an actuary provides regarding the funding, funded status, financial position, or the financial condition with respect to the wind-up, in full or in part, of a post-employment benefit plan; and

- Section 6400 applies to advice that an actuary provides regarding financial reporting of a post-employment benefit plan's costs and obligations in the employer's financial statements, or the post-employment benefit plan's financial statements, or the financial statements of a trust associated with the post-employment benefit plan, where the calculations and advice are provided in accordance with an applicable financial reporting standard.

For the purposes of determining whether section 6300 applies, the wind-up of a post-employment benefit plan would involve the termination of future benefits for some or all plan members, the termination of some or all plan benefits and the distribution of some or all of the plan's assets, if any. Examples of work with respect to wind-ups include the calculation of benefit plan costs or entitlements:

- When a benefit trust is being replaced with an insured arrangement;
- Where assets from a company's liquidation may be provided as cash in lieu of employee benefit plans upon insolvency or upon the wind-up of a post-employment benefit plan trust; and
- Where the plan sponsor offers cash in lieu of future benefits.

The cessation of benefit accruals or termination of a post-employment benefit plan, not involving the termination of plan benefits and distribution of plan or other assets, would not constitute a plan wind-up. For example, the closure of a post-employment benefit plan to future new members would not constitute a wind-up.

.02 The standards in sections 6200 through 6400 apply to an actuary's advice with respect to a post-employment benefit plan that provides benefits other than pension benefits to the plan's members and their covered spouses and dependants, whether funded or not, whether insured or not, and whether in the private or public sector. Such plans include any arrangement that provides:

- Long-term employee benefits (and compensated absences) including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits, and profit sharing, bonuses, and other deferred compensation such as retiring allowances that are to be paid far enough into the future to be considered to be a post-employment benefit (long-term employee benefits would generally include benefits that commence or continue to be payable more than 12 months after the initial incident that caused the benefit to be paid; for example, long-term disability benefits);
- Short-term employee benefits (and compensated absences) that accumulate or vest, such as accumulated sick days or vacation days that can be saved in one period and drawn or paid out in another period;
- Benefits to which plan members become entitled when they are no longer actively at work, such as post-employment life insurance or post-employment health care; and/or
- Termination benefits payable to an employee as a result of termination of employment, if some or all of the benefits are payable on or after the date of termination of employment.

- .03 The standards in sections 6200 through 6400 do not apply to an actuary's advice with respect to any arrangement that is:
- A plan within the scope of part 3000 Pension Plans or part 5000 Public Personal Injury Compensation Plans;
 - A short-term employee benefit plan such as wages, salaries, and social security contributions, paid annual vacation/leave and paid sick leave, profit sharing and bonuses (if payable within 12 months of the end of the period to which they relate) and non-monetary benefits (such as medical care, housing, cars, and free or subsidized goods or services) for current employees that do not accumulate or vest;
 - A post-employment benefit plan whose benefits are all guaranteed by a life insurer; or
 - A social security program such as the Canada Pension Plan and Québec Pension Plan.
- .04 The standards in sections 6200 through 6400 also apply to an actuary's advice to an employer with respect to the self-insured element of a public personal injury compensation plan that covers the employees of that employer; for example, self-insured workers' compensation plans.
- .05 An actuary's advice with respect to a post-employment benefit plan may relate to items such as:
- Required or recommended funding of the plan;
 - Projected cash flows of the plan with or without future new entrants;
 - Determination of the actuarial present value of the projected or accrued benefits of the plan with or without future new entrants;
 - Determination of amounts for financial reporting of a plan's cost; or
 - Determination of the obligations for reporting in the employer's financial statements, or the plan's financial statements, or the financial statements of a trust associated with the plan.