

## *Final Standards*

# Final Standards – Revisions to the General and Practice-Specific Standards – Consistency of Reporting and Conformance with International Standard of Actuarial Practice 1

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## 1800 REPORTING

### 1810 STANDARD REPORTING LANGUAGE

- .01 *The actuary's external user report should incorporate any standard reporting language applicable to the work. [Effective December 1, 2002]*
- .02 The practice-specific standards for work describe any applicable standard reporting language.
- .03 The purpose of standard reporting language is to simplify the actuary's communication with users by creating a clear, easy to recognize, distinction between the usual situation and the unusual (sometimes problem) situation. The standard reporting language, while abbreviated, acquires precision by the convention that the situation is usual if there is no reservation. Any reservation is disclosed in a special paragraph and described either there or by reference. Standard reporting language is thus similar to the auditor's standard report on financial statements.
- .04 The standard reporting language may be incorporated in a report prepared by the actuary's employer or client; for example, the financial statements of an insurer, a pension plan or a public personal injury compensation plan. Such a report does not constitute an external user report.
- .05 Here is the skeletal structure of standard reporting language.

Addressee, which usually identifies the client or employer.

Scope paragraph, which describes the work and its purpose and says that the work was done in accordance with accepted actuarial practice in Canada in a usual situation, or that it was done in accordance with accepted actuarial practice in Canada "except as described in the following paragraph" in an unusual situation.

Reservations paragraph (omitted in the usual situation), which either compares the particular (unusual) situation to the usual situation or refers to that comparison elsewhere.

Opinion paragraph, which reports the actuary's opinion, without reservation in a usual situation and with reference to the reservations paragraph in an unusual situation. The opinion paragraph either reports the result of the work, which is practical only if the result is short, or references its location.

Identification of the actuary.

Report date.

## 1820 REPORTING: EXTERNAL USER REPORT

- .01 *In an external user report, the actuary should*
- identify the client or employer,*
  - describe the work, its purpose, and its users,*
  - say whether or not the work is in accordance with accepted actuarial practice in Canada and, if not, disclose the deviation from that practice,*
  - if useful, disclose any unusual application of accepted actuarial practice,*
  - disclose any aspect of the work for which the actuary does not take responsibility,*
  - describe each assumption used for the work, that is material to the results of the work, including the extent of any margin for adverse deviations included with respect to each such assumption,*
  - provide the rationale for each such assumption that is material to the results of the work,*
  - disclose any assumption that is different from assumption of continuance of the status quo and, if practical, useful and appropriate under the terms of the engagement, disclose the effect of alternative assumptions,*
  - describe the methods used for the work,*
  - in the case of a periodic report, disclose any inconsistency between the methods and assumptions of the current and prior reports and the rationale for such inconsistency,*
  - describe any subsequent event that is not taken into account in the work,*
  - disclose any reservation,*
  - express an opinion on the methods and assumptions used for the work,*
  - express an opinion on the results of the work,*
  - identify himself or herself and sign the report, and*
  - date the report. [Effective March 31, 2015]*
- .02 *Any description or disclosure may be in material referred to in the report and either accompany the report or plausibly be available to users.*
- .03 *Subsequently, the actuary should respond to a user's request for explanation except if that is contrary to the terms of the engagement.*
- .04 *Subsequently, the actuary should withdraw or amend the report if information comes to hand after the report date that invalidates the report.*

.05 *A duty of confidentiality in an appropriate engagement supersedes any of the foregoing portions of this recommendation with which it conflicts, but does not supersede an actuary's obligations to the Canadian Institute of Actuaries, pursuant to the bylaws or the Rules of Professional Conduct. [Effective December 1, 2002]*

**Description and disclosure in general**

.06 The range of appropriate reports is relatively narrow for external user reports as compared to that for internal user reports. An external user report would be relatively formal and detailed when the actuary does not communicate directly with users or when the interests of an external user and of the actuary's client or employer are not the same.

.07 Appropriate description and disclosure in a report strike a balance between too little and too much. Too little disclosure deprives the user of needed information. Too much disclosure may exaggerate the importance of minor matters, imply a diminution of the actuary's responsibility for the work, or make the report hard to read.

.08 The appropriate criterion for description and disclosure is the question, "What qualitative and quantitative information best serves the user's understanding and decision-making?" The question, "What information does the user want?", is an insufficient criterion because the circumstances of a case may make the actuary aware of information needs of which the user is unaware.

.09 The actuary would consider and address the sensitivity of the results of the work to variations in key assumptions where practical, useful and consistent with the terms of the engagement.

.10 Disclosure need not necessarily be in the report itself except if its importance so warrants or if it cannot be referenced in material available to users. Disclosure in a short report may place undue emphasis on the information disclosed.

- .11 An unintended reservation misleads the user if it implies either that there was a deviation from accepted actuarial practice or that the actuary does not take full responsibility for the work. The following are examples.

Approximation is a usual part of work. Even a moderately complex calculation may involve many approximations. Disclosure of an appropriate approximation may mislead the user by implying that the actuary's work falls short of accepted actuarial practice.

Use of another person's work is also a usual part of work. If the actuary does not take responsibility for the used work, then disclosure is appropriate. Disclosure if the actuary does take responsibility for the used work may mislead the user.

Deviation from a particular recommendation or other guidance in the standards when the result of doing so is not material is also a usual part of work and its disclosure is undesirable.

### **The work, its purpose, and its users**

- .12 Description of the work usually includes the calculation date and the numerical result. If the work is required by law, then citation of the law is useful.
- .13 The amount of detail depends mainly on the needs of users. A separate report may be desirable for a particular user (usually a regulator) whose desire for detail significantly exceeds that of other users.
- .14 Description of the purpose of the work and its users permits another person to assess its appropriateness to his or her needs and may thereby avoid unintended use of the work.
- .15 The users comprise the addressee(s) of the report, and any others explicitly identified in the report. Where a report has more than one user, the actuary would have regard to the information of value to each user in determining appropriate disclosure.

### **Accepted actuarial practice**

- .16 If the work is in accordance with accepted actuarial practice, then a simple statement to that effect is a powerful statement, and reassuring even to a user with a limited understanding of what accepted actuarial practice is. If the work is not in accordance with accepted actuarial practice, then a statement that it is, except for specified deviations, is a concise description.
- .17 Any deviation from accepted actuarial practice would result from either conflict with law or conflict with the terms of an appropriate engagement.
- .17.1 For work in Canada, the actuary would refer to "accepted actuarial practice in Canada", or use other language of equivalent meaning and clarity.

- .17.2 For work outside of Canada, the actuary may choose to refer to
- “accepted actuarial practice in [country]”, if the guidance of a foreign jurisdiction has been applied to the work,
  - “internationally accepted actuarial practice”, if the guidance of the International Actuarial Association has been applied to the work, or
  - “accepted actuarial practice in Canada”, if Canadian guidance has been applied to the work because of the absence of applicable foreign guidance.

### **Unusual application of accepted actuarial practice**

- .18 The actuary would not usually report a deviation from a particular recommendation or other guidance in the standards as a result of an unusual or unforeseen situation.
- .19 If, as is common, accepted actuarial practice for an aspect of the work encompasses a range, then the actuary usually reports the work as being in accordance with accepted actuarial practice without drawing particular attention to his or her selection within the range. Disclosure of the selection, and of the reason for selecting it, is appropriate, however, if it is
- mandated by law or specified by the terms of the actuary’s engagement,
  - excluded from the accepted range by an exposure draft or by approved, but not yet effective, new standards,
  - inconsistent with the corresponding assumption of a prior periodic report,
  - dependent on a special permissive feature in the law for its acceptability, or
  - unusual or controversial.

### **Limitation to actuary’s responsibility**

- .20 Any diminution of the actuary’s responsibility for the work as a result of an engagement whose terms call for a deviation from accepted actuarial practice would be disclosed.

### **Disclosure of assumptions**

- .21 Repealed
- .21.1 Where an assumption or method is mandated by law or specified by the terms of the actuary’s engagement, a statement to that effect constitutes an appropriate rationale for that assumption or method.
- .21.2 Where an assumption or method is mandated by law, the actuary would, if relevant, disclose that use of the report, based on the mandated assumption or method, may not be appropriate for purposes other than that for which the report was prepared.

### **Subsequent event not taken into account in the work**

- .22 An example of a subsequent event not taken into account in the work is a non-retroactive increase in the benefits of a pension plan for which the actuary is advising on funding. The actuary would describe the increase, report that it was not taken into account in the current advice on funding but that it will be taken into account in future advice. If useful, the actuary would quantify its effect, for example by reporting the pro forma effect on the recommended funding if the benefit increase were effective immediately before the calculation date.

### **Reservations**

- .23 A report with reservation may be undesirable but is unavoidable in the following examples.

The actuary was obliged to use the work of another person and has doubts about the appropriateness of so doing.

The actuary was obliged to use insufficient or unreliable data.

There was an undue limitation to the scope of the actuary's work. For example, the time, information, or resources contemplated by the terms of the engagement did not materialize.

There is an unresolved conflict of interest. Rule 5 (Conflict of Interest) permits the actuary who has a conflict of interest to perform professional services if stated conditions are met. In reporting with respect to such a case, it is good practice to note the conflict and confirm that the conditions are met. If, as a result of an apparent but not actual conflict, a user might doubt the actuary's objectivity, then it is useful to report why the conflict is not real. There is no conflict of interest, however, merely because a user and the actuary's client or employer have conflicting interests.

- .24 The actuary would report any remedy, underway or expected, to the problem causing the reservation.

- .25 A serious reservation may call for consulting with another actuary or obtaining legal advice.

- .26 Barring explicit disclosure to the contrary in the report, the user is entitled to assume that the work is in accordance with accepted actuarial practice and no reservation is required, the actuary takes responsibility for all of the work, and if a periodic report, then the method is the same as that in the prior report and the assumptions are consistent with those in the prior report.

## Opinion

- .27 In giving an opinion, the actuary would begin with “In my opinion...” which is a signal that the actuary is giving a formal, professional opinion on a matter within the domain of actuarial practice. The actuary would add appropriate qualification when giving an opinion on a matter outside that domain but on which he or she is able to comment. For example,

“The valuation of Mrs. Smith’s life interest in Mr. Smith’s estate, and the residual value, both depend on the future value of the residential property which makes up the bulk of that estate. An assumption about future real estate values for any given property is outside the domain of actuarial practice but, in my opinion, it is reasonable to assume that property values will generally continue to increase over time at the same rate as inflation.”

- .28 With respect to any assumption or method specified by the terms of the engagement, the actuary would:

If the actuary considers such assumption or method to fall within the range of accepted actuarial practice, opine that the assumption or method is appropriate;

If the actuary considers such assumption or method to not fall within the range of accepted actuarial practice, report that the assumption or method is not in accordance with accepted actuarial practice and report that the assumption or method was specified by the terms of the engagement, as applicable; If the actuary is unable to easily determine whether the assumption or method falls within the range of accepted actuarial practice, report that the assumption or method may not be accordance with accepted actuarial practice and report that the assumption or method was specified by the terms of the engagement, as applicable.

## Identification

- .29 For work in Canada, the actuary would usually identify himself or herself simply as “Fellow, Canadian Institute of Actuaries” (or “FCIA” if users recognize the abbreviation), especially when Fellowship in the CIA is required or expected for the work. To add additional identification, such as

the actuary’s relationship with the client or employer (e.g., “Vice-President and Actuary” or “Consulting Actuary”), or

the actuary’s other professional qualification (e.g., “Fellow of the Casualty Actuarial Society”)

may be appropriate but may create confusion about the actuary’s qualification to sign the report and about the standards governing the work, and may diminish the standing of the Canadian Institute of Actuaries.

### **Report date**

- .30 In reporting an opinion, the actuary would consider all available information up to the report date, including subsequent events if the report date is after the calculation date.
- .31 The report date would usually be the date at which the actuary has substantially completed the work. The remaining effort may include peer review, typing and photocopying the report, and compilation of documentation.
- .32 The date the actuary signs and delivers the report would be as soon thereafter as practical. If there is an unavoidably long delay, however, then the actuary would consider any additional subsequent events which would result from a current report date.
- .32.1 The actuary would issue the report within a reasonable time period with regard to the actuary's terms of engagement and the needs of the users of the report.

### **Withdrawal or amendment of a report**

- .33 After the report date, the actuary has no obligation to seek additional information which, if known at the report date, would have been reflected in the work, but, if additional information comes to hand, the actuary would consider if it affects the report. Additional information affects the report if it
- reveals a data defect or a calculation error,
  - provides additional information about the entity which is the subject of the report as that entity was at the calculation date,
  - retroactively makes that entity different at the calculation date, or
  - makes that entity different after the calculation date and a purpose of the work was to report on the entity as it would be as a result of the information.
- .34 That additional information consists of both external information and internal discovery of an error in the work. Its classification is similar to the classification of subsequent events. That is, if the additional information were a subsequent event, and if it would have to be taken into account in the data, methods, or assumptions for the work, then it would affect the report. It does not affect the report if it makes the entity, which is the subject of the report, different after the calculation date and a purpose of the work is to report on the entity as it was at the calculation date; for example, if the additional information changes the outlook for the entity which would lead the actuary to select different assumptions at the next calculation date for a periodic report.

- .35 If the actuary determines that the event affects the report, the actuary would determine whether the event invalidates the report. If the actuary determines that the event does not invalidate the report, then the actuary would consider whether to inform some or all of the users of the report about the event. If the actuary determines that the event invalidates the report, the actuary would withdraw or amend the report. If the actuary withdraws or amends a report, then he or she would seek agreement with the client or employer on the notification to be given to users and on the preparation of an amended or replacement report in cases where there is no legal requirement to do so. Failing such agreement, the actuary would consider seeking legal advice on the discharge of his or her responsibilities, taking consideration of the fact that, to the extent practical and useful, all users should so be informed.
- .36 The following examples are intended to assist actuaries in determining whether an event of which the actuary becomes aware after the report date may be worthy of disclosure to the users of the report or may require the report to be withdrawn or amended;
- if an event affects a report, but that report has been superseded by another report, typically no action would be taken with respect to the prior report,
  - if an event materially affects the financial position, financial condition or funded status of a pension plan, but does not materially affect the funding of the plan, it may be sufficient to disclose the event to the users of the report rather than withdraw or amend the report,
  - if an event results in a situation where an assumption used in the work is obviously erroneous, but the assumption was reasonable at the report date, the actuary would typically, not withdraw or amend the report, but would reflect the event in a subsequent report,
  - if an actuary has prepared a report that provides advice on the funding of a pension plan and, subsequent to the report date discovers an error in the report, and the funding recommendations contained in the report would change materially if the error were corrected, the actuary may determine that it is appropriate to withdraw or amend the report.

### **1830 REPORTING: INTERNAL USER REPORT**

- .01 *In the case of an internal user report, the actuary may appropriately abbreviate the recommendation for external user reports. [Effective December 1, 2002]*
- .02 The range of appropriate reports is wider for internal user reports than for external user reports. At one end of the range, a formal internal user report may differ little from an external user report. At the other end of the range, an informal, abbreviated, even oral, report may suffice for a representative of the actuary's employer or client with whom the actuary communicates frequently and who is well-versed in the subject of the report. To abbreviate the standards for an internal user report is efficient for both the actuary and the user provided that complete and clear communication is not thereby compromised.

## **1840 REPORTING: ORAL REPORT**

- .01 Oral reporting, especially to an internal user, is both useful and inevitable in some situations. The disadvantage of oral reporting is that the actuary and user may have differing recollections of what was reported. It is therefore good practice to confirm an oral report in writing, especially when there is an external user, or to record it in documentation.
- .02 Except for signature and report date, the standards are the same for both oral and written reports.

## **3260 REPORTING: EXTERNAL USER REPORT**

.01 *An external user report on work pursuant to section 3200 should:*

- *Include the calculation date, the report date, and the next calculation date;*
- *Describe the sources of membership data, plan provisions, and the pension plan's assets, and the dates at which they were compiled;*
- *Describe the membership data and any limitations thereof;*
- *Describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work;*
- *Describe the assets, including their market value and a summary of the assets by major category;*
- *Describe the pension plan's provisions, including the identification of any pending definitive or virtually definitive amendment;*
- *Disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work, or, if there are no subsequent events of which the actuary is aware, include a statement to that effect;*
- *State the type of each valuation undertaken under the terms of the appropriate engagement; and*
- *Describe any significant terms of the appropriate engagement that are material to the actuary's advice. [Effective December 30, 2012]*

.02 *For each going concern valuation undertaken by the actuary, the external user report should:*

- *Describe the rationale for any assumed additional returns, net of investment management expenses, from an active investment management strategy as compared to a passive investment management strategy, included in the discount rate assumption;*
- *Report the funded status at the calculation date and the service cost or the rule for calculating the service cost between the calculation date and the next calculation date;*
- *Disclose any pending but definitive or virtually definitive amendment of which the actuary is aware, and whether or not such amendment has been included in determining the funded status and the service cost;*

- Describe any contingent benefits provided under the pension plan and the extent to which such contingent benefits are included or excluded in determining the funded status and the service cost;
- Describe any benefits that are not contingent benefits and that have been excluded in determining the funded status and the service cost; and
- If there is no provision for adverse deviations, include a statement to that effect. [Effective March 31, 2015]

.03 If an external user report includes one or more going concern valuations then the external user report should, for at least one such valuation included in the report, describe and quantify the gains and losses between the prior calculation date and the calculation date.

.04 If an external user report includes one or more going concern valuations, other than a valuation for the purpose of determining the maximum funding permitted by law for a “designated plan”, as that term is defined in the Income Tax Regulations (Canada), then the external user report should, for at least one such valuation included in the report, report the effect of using a discount rate 1.0% lower than that used for the valuation on:

- The actuarial present value, at the calculation date, of projected benefits allocated to periods up to the calculation date; and
- The service cost or the rule for calculating the service cost between the calculation date and the next calculation date. [Effective December 30, 2012]

.05 For each hypothetical wind-up valuation and solvency valuation undertaken by the actuary, the external user report should:

- Describe the basis for inclusion and the amount considered in respect of a letter of credit of which the pension plan is the beneficiary;
- Report the funded status at the calculation date;
- Include a description of the postulated scenario; and
- Include a description of the extent to which contingent benefits provided under the pension plan are included or excluded in determining the funded status.

.06 *If an external user report includes one or more hypothetical wind-up valuations or solvency valuations then, for any one such hypothetical wind-up valuation or solvency valuation, the external user report should:*

- *Report the incremental cost between the calculation date and the next calculation date, in respect of the defined benefit portion of the plan;*
- *If the external user report does not include a going concern valuation, report the incremental cost between the calculation date and the next calculation date in respect of the defined contribution portion of the plan;*
- *Report the effect on the hypothetical wind-up or solvency liabilities, at the calculation date, of using a discount rate 1.0% lower than that used for the valuation; and*
- *If the external user report does not include a going concern valuation, describe and quantify the gains and losses between the prior calculation date and the calculation date;*

*unless*

- *The pension plan is a “designated plan” which has, as members, only persons “connected” with the employer as those terms are defined in the Income Tax Regulations (Canada); or*
- *The hypothetical wind-up valuation or solvency valuation is based on an extrapolation of results disclosed in a previous external user report.*

.06.1 *For each valuation that is not a going concern valuation, a hypothetical wind-up valuation, or a solvency valuation, the external user report should:*

- *Include a description of the extent to which contingent benefits provided under the pension plan are included or excluded. [Effective March 31, 2015]*

.07 *An external user report that provides advice on funding should:*

- *Describe the determination of contributions or a range of contributions between the calculation date and the next calculation date;*
- *If contributions are fixed by the terms of the plan or other governing documents, then either:*
  - *Report that the contributions are adequate to fund the pension plan in accordance with the law; or*
  - *Report that the contributions are not adequate to fund the pension plan in accordance with the law; and*
    - *Describe the contributions required to fund the pension plan adequately in accordance with the law;*
    - *Describe one or more possible ways in which benefits may be reduced such that the contributions would be adequate to fund the pension plan in accordance with the law; or*
    - *Describe a combination of increases in contributions and reductions in benefits that would result in the funding being adequate to conform to the law.*

.08 *An external user report should provide the following four statements of opinion, all in the same section of the report, and in the following order:*

- *A statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”;*
- *A statement as to assumptions, which should usually be, “In my opinion, the assumptions are appropriate for the purpose(s) of the valuation(s).”;*
- *A statement as to methods, which should usually be, “In my opinion, the methods employed in the valuation are appropriate for the purpose(s) of the valuation(s).”;* and
- *A statement as to conformity, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.”*

.09 *An external user report should be sufficiently detailed to enable another actuary to assess the reasonableness of the valuation. [Effective December 30, 2012]*

### **Membership data**

.10 Any assumptions and methods used in respect of insufficient or unreliable membership data would be described.

.11 The actuary may describe limitations on the tests conducted in the review of the data which has been determined to be sufficient and reliable for purposes of the valuation(s). For example, the actuary may describe that the data tests will not capture all possible deficiencies in the data and reliance is also placed on the certification of the plan administrator as to the quality of the data.

## Types of valuations

.12 The external user report may provide information with respect to multiple valuations, but would, as a minimum:

- If the pension plan is a registered pension plan and is not a “designated plan”, as that term is defined in the Income Tax Regulations (Canada), provide information with respect to:
  - A going concern valuation, if mandated by law or specified by the terms of an appropriate engagement;
  - A hypothetical wind-up valuation under the scenario regarding the circumstances resulting in the wind-up that, subject to paragraph 3260.19, maximizes the wind-up liabilities, unless the pension plan and the law do not define the benefits payable upon wind-up; and
  - Any other hypothetical wind-up or solvency valuation mandated by law;
- If the pension plan is a “designated plan” as that term is defined in the Income Tax Regulations (Canada), provide information with respect to:
  - A going concern valuation, if mandated by law or specified by the terms of an appropriate engagement;
  - A hypothetical wind-up valuation under the scenario regarding the circumstances resulting in the wind-up that, subject to paragraph 3260.19, maximizes the wind-up liabilities, unless the pension plan and the law do not define the benefits payable upon wind-up or the plan has, as members, only persons “connected” with the employer as that term is defined in the Income Tax Regulations (Canada); and
  - Any other hypothetical wind-up or solvency valuation mandated by law;

and

- If the pension plan is not a registered pension plan, include information with respect to the types of valuations required by the circumstances of the work.

### **Significant terms of appropriate engagement**

- .13 Significant terms of the appropriate engagement may include matters like:
- The use of a specified actuarial cost method;
  - The use of a specified asset valuation method;
  - The exclusion of benefits for purposes of a valuation, as permitted by law;
  - The extent of margins for adverse deviations, if any, to be included in selecting assumptions;
  - A policy to fund only the minimum contributions required by law; and
  - Specified methodology for the determination of contribution requirements in excess of the requirements of law.

### **Service cost**

- .13.1 For a plan that is a hybrid of a defined contribution pension plan and a defined benefit pension plan, the service cost for a going concern valuation would include the service cost in respect of both the defined contribution portion of the plan and the defined benefit portion of the plan.

### **Reporting gains and losses**

- .14 The reported gains and losses for a going concern valuation would include the gain or loss due to a change in the actuarial cost method or a change in the method for valuing the assets and each significant change in assumptions and plan provisions determined at the calculation date. If an amendment to the pension plan prompts the actuary to change the assumptions, the actuary may report the combined effect of the amendment and the resultant change in assumptions.

### **Discount rate sensitivity**

- .15 When following the recommendations to illustrate the effect of a change in discount rate on a valuation, the actuary would maintain all other assumptions and methods as used in the underlying valuation.

### **Incremental cost**

- .15.1 The incremental cost for a hypothetical wind-up valuation or a solvency valuation represents the present value, at the calculation date, of the expected aggregate change in the hypothetical wind-up liability or solvency liability between the calculation date and the next calculation date, increased for expected benefit payments between the calculation date and the next calculation date.

### **Methods**

- .16 For each valuation included in the external user report for which there was a prior valuation, the description of the actuarial cost method would include a description of any change to the actuarial cost method used in the prior valuation and the rationale for such change.

- .17 For each valuation included in the external user report for which there was a prior valuation, the description of the method to value the assets would include a description of any differences in change to the asset valuation method used in the prior valuation and the rationale for such change.

### **Assumptions**

- .18 For each valuation included in the external user report for which there was a prior valuation, the description of assumptions would include a description of each change to the assumptions from the assumptions used in the prior valuation.

- .18.1 When describing the assumptions for methods of settlement for a hypothetical wind-up or solvency valuation, the actuary would describe any related limitations. For example:

- If the settlement method assumes that annuities would be purchased but it might not be possible to purchase annuities on actual wind-up of the plan due to capacity limitations; or
- If the settlement method assumes the exercise of regulatory discretion, a change in law, or a plan amendment for which there is no specific authority.

### **Scenario that maximizes wind-up liabilities**

- .19 In reporting the funded status of the pension plan under the scenario regarding the circumstances resulting in the wind-up that maximizes the wind-up liabilities, the actuary would include benefits that are contingent upon the scenario regarding the circumstances resulting in the wind-up or mandated by law. However, the actuary may disregard:

- Benefits that are contingent upon a factor other than the scenario regarding the circumstances resulting in the wind-up or as mandated by law; and
- Possible plan member earnings after the calculation date.

### **Other types of valuations**

- .19.1 Valuations that are not going concern valuations, hypothetical wind-up valuations, or solvency valuations are usually similar in nature to one of these three types of common valuations. In preparing the external user report for such a valuation, the actuary would consider the relevant reporting requirements for a type of valuation similar to the valuation undertaken and would include additional disclosures as appropriate.

### **Statements of opinion**

- .20 Where different statements of opinion apply in respect of different purposes of the valuation, the above requirements may be modified but would be followed to the extent practicable.

- .21 While a separate statement regarding assumptions would generally be included in respect of each purpose of the valuation, the statements regarding assumptions may be combined where the statements do not differ among some or all of the valuation's purposes. The report would indicate clearly which statement regarding assumptions applies to each of the valuation's purposes.
- .22 While a separate statement regarding methods would generally be included in respect of each purpose of the valuation, the statements regarding methods may be combined where the statements do not differ among some or all of the valuation's purposes. The report would indicate clearly which statement regarding methods applies to each of the valuation's purposes.

### **3330 REPORTING: EXTERNAL USER REPORT**

.01 *If a previous external user report was prepared with respect to the wind-up, the actuary should describe and quantify the gains and losses between the prior calculation date and the calculation date. [Effective December 30, 2012]*

.02 *An external user report should:*

- *Include the wind-up date, the calculation date, the cut-off date, and the report date;*
- *Describe the events precipitating the wind-up, of which the actuary is aware, that affect the terms of the wind-up, the benefit entitlements, or the valuation results;*
- *Describe the sources of membership data, plan provisions, and the pension plan's assets, and the dates at which they were compiled;*
- *Describe the membership data, including any assumptions made about missing membership data;*
- *Describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work;*
- *Subject to any applicable privacy legislation:*
  - *Include the detailed individual membership data; or*
  - *Include an offer to provide detailed individual membership data on request to the employer, the plan administrator, or the regulator;*
- *Describe the liquidation value of the assets and a summary of the assets by major category;*
- *Describe the pension plan's provisions, including an identification of*
  - *Any benefits that have been insured;*
  - *Any amendments made since any previous external user report with respect to the plan which affect benefit entitlements; and*
  - *Any subsequent events or post-wind-up contingencies, of which the actuary is aware, which affect benefit entitlements;*
- *Report the explicit assumption regarding the expenses of wind-up or justify the expectation that expenses will not be paid from the pension plan's assets;*
- *Report the funded status at the calculation date;*

- *Disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work and, if there are no subsequent events of which the actuary is aware, include a statement to that effect;*
- *State that the funded status at settlement may differ from that contained in the report unless the report includes the funded status at the time of final settlement;*
- *State whether an updated report will be required in the future;*
- *If the actuary relies upon direction concerning unclear or contentious issues,*
  - *Describe each such issue;*
  - *Describe the direction relied upon or, where appropriate, a summary thereof; and*
  - *Identify the person providing such direction and the basis of authority of such person;*
- *Describe any post-wind-up contingencies that may affect the distribution of the pension plan's assets;*
- *Describe whether a recalculation of the value of benefit entitlements is required at settlement;*
- *Where a member has a choice that the member has not yet made between receiving a commuted value and a deferred or immediate pension, describe the assumptions made regarding such choice;*
- *If applicable, describe the method to allocate the pension plan's assets among classes of members and the method to distribute surplus;*
- *Describe the actuary's role in calculating commuted values, the standards for their calculation, and an opinion on whether their calculation is in accordance with accepted actuarial practice in Canada; and*
- *Describe the sensitivity of the valuation results to the pension plan's investment policy and to market conditions between the report date and the settlement date. [Effective March 31, 2015]*

.03 An external user report should provide the following four statements of opinion, all in the same section of the report and in the following order:

- A statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”;
- A statement regarding assumptions, which should usually be, “In my opinion, the assumptions are appropriate for the purpose(s) of the valuation(s).”;
- A statement regarding methods, which should usually be, “In my opinion, the methods employed in the valuation are appropriate for the purpose(s) of the valuation(s).”; and
- A statement regarding conformity, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.”

.04 The external user report should be sufficiently detailed to enable another actuary to assess the reasonableness of the valuation. [Effective December 30, 2012]

### **Dates**

.05 The wind-up date of the pension plan would be determined by the regulator, the plan administrator or the plan sponsor based on the plan provisions and the law.

.06 The calculation date of the funded status would usually be the wind-up date.

.07 For a particular member:

- The date of calculation of benefit entitlement would depend on the circumstances of the wind-up, the terms of the pension plan, and the law, and may be the date of termination of employment, the date of termination of membership, the wind-up date, or another date; and
- The settlement date would be the date of settlement of the member’s benefit entitlement.

### **Nature of wind-ups**

.08 The purpose of a wind-up valuation may be to determine, or to provide, the basis for determining:

- The funded status of the pension plan;
- The total value of the benefit entitlements of all members prior to taking account of the funded status of the pension plan;
- Any required additional funding;
- The amounts and methods of settlement of benefit entitlements, including any adjustment required due to a wind-up deficit; or
- The amount and method of distribution of a wind-up surplus.

- .09 A wind-up may be complex and may take a long time. Delays may require a series of reports by the actuary. Since the funded status of the pension plan at the final settlement date may affect whether benefit entitlements can be settled in full, the reflection of subsequent events in each report would be critical.
- .10 For example, between the wind-up date and the settlement date:
- The wind-up liabilities may fluctuate if there are fluctuations in interest rates and annuity prices;
  - The pension plan's assets may fluctuate depending upon the manner in which they are invested; and
  - The surplus may fluctuate if the pension plan's assets and liabilities are not matched.
- .11 The actuary would usually report the value of the benefit entitlements of all members and the funded status of the pension plan. That report would be filed with the regulator for approval. After that approval, the plan administrator would settle the benefit entitlements.
- .12 The actuary may prepare, or may be required to prepare, a final report after settlement of all benefit entitlements. Such report, if any, would document the distribution of the pension plan's assets by describing those entitlements and their settlement.

### **Membership data**

- .13 The membership data are the responsibility of the plan administrator. The actuary would, however, report on the sufficiency and reliability of the membership data, specifically including the commuted values used in the valuation whether or not the plan administrator was the calculator thereof.
- .14 The finality of wind-up would call for the actuary to obtain precise membership data. The actuary may, if the circumstances dictate, include contingency reserves in the wind-up valuation with respect to missing members if the actuary believes that additional members still have benefit entitlements under the pension plan but their membership information is missing.
- .15 The reported membership data would include details of the amounts and terms of payment of each member's benefits.

### **Assumptions**

- .16 The selected assumptions would:
- In respect of benefit entitlements that are assumed to be settled by purchase of annuities, reflect single premium annuity rates;
  - In respect of benefit entitlements that are assumed to be settled by lump sum transfer, reflect the standards in section 3500 respecting commuted values; and
  - In respect of benefit entitlements that are assumed to be settled in some other manner, reflect the manner in which such benefits would be settled.

- .17 If future benefits depend on continued employment (e.g., the pension plan is terminating but employment is not), the actuary would consider reflecting contingencies such as future salary increases and termination of employment.
- .18 If the pension plan provides special early retirement allowances that may be reduced if the members have employment income following their actual or assumed early retirement dates, then the wind-up valuation would require assumptions regarding the likelihood and the amounts of the members' future employment income. To extrapolate the pension plan's historical experience as a going concern would not necessarily be appropriate in selecting those assumptions.
- .19 Wind-up expenses usually include, but are not limited to:
- Fees related to the actuarial wind-up report;
  - Fees imposed by a regulator;
  - Legal fees;
  - Administration expenses; and
  - Custodial and investment management expenses.
- .20 The actuary would either net wind-up expenses against the pension plan's assets or add the assumed wind-up expenses to the pension plan's liabilities in calculating the ratio of assets to liabilities as a measure of financial security of the benefit entitlements, unless the expectation is that expenses will not be paid from the pension plan's assets. However, an exception may be made for future custodial and investment management expenses, which may be netted against future investment return in the treatment of subsequent events.

### **Use of another person's work**

- .21 Some aspects of the wind-up may be unclear to the actuary or contentious. Examples are:
- Interpretation of the law;
  - The determination of the wind-up date;
  - The members, former members or recently terminated members to be included in the wind-up;
  - Whether or not to assume salary increases in determining benefit entitlements;
  - Eligibility for plant closure benefits and permanent lay-off benefits;
  - Eligibility for benefits payable only with the consent of the employer or plan administrator;
  - The liquidation value of the pension plan's assets;
  - The method to allocate the pension plan's assets among members;
  - The allocation of surplus between the employer and the members; and
  - Whether or not wind-up expenses are to be paid from the pension plan's assets.
- .22 To decide those aspects, the actuary may rely upon direction from another person with the necessary knowledge, such as legal counsel or the employer, or the necessary authority, such as a regulator or the plan administrator. The actuary would consider any issues of confidentiality or privilege that may arise.

### **Post-wind-up contingencies**

- .23 Post-wind-up contingencies may affect benefit entitlements. Examples are:
- Member election of optional forms of benefits;
  - Member election of retirement date;
  - Salary increases; and
  - Change in marital status.

### **Subsequent events**

- .24 In contrast with a going concern valuation, in a wind-up valuation all subsequent events, ideally, would be reflected. This ensures that the funded status is presented as fairly as possible as of the report date. However, it would be impossible to recognize subsequent events right up to the report date. Accordingly, the actuary would select a cut-off date that is close to the report date.

- .25 The actuary would ascertain that no subsequent events have occurred between the cut-off date and the report date that would change the funded status significantly, otherwise the actuary would select a later cut-off date. For clarity, a subsequent event may be material yet not be so significant as to require selection of a later cut-off date.
- .26 It may be appropriate to have more than one cut-off date. For example, the actuary may select one cut-off date for the active membership data and another cut-off date for the inactive membership data.
- .27 Common subsequent events are:
- Contributions;
  - Expenses paid from the pension plan's assets;
  - Actual investment return on the pension plan's assets;
  - Change in annuity purchase rates;
  - Change in assumptions for the calculation of commuted values;
  - Corrections to the membership data;
  - Deaths of members; and
  - Crystallization of post-wind-up contingencies.
- .28 One method for taking account of subsequent events is to determine the value of benefits as of the cut-off date and then discount such value back to the calculation date at an interest rate equal to the rate of investment return, net of investment expenses, earned on the pension plan's assets between the calculation date and the cut-off date. The pension plan's assets would be determined at the calculation date, but adjusted for the subsequent events (such as contributions and non-investment expenses) that affect the pension plan's assets.
- .29 There may be situations where, due to legal or practical considerations, subsequent events are not recognized, at least in a preliminary report and the cut-off date for such a report would be the calculation date. In such reports, the effect of subsequent events may be disclosed and quantified in an approximate manner. Where the effect of subsequent events is provided in a later report, it may be practical, in that report, to use a calculation date corresponding to the cut-off date.

### **Statements of opinion**

- .30 Where different statements of opinion apply in respect of different purposes of the valuation, the above requirements may be modified, but would be followed to the extent practicable.

## 3420 REPORTING: EXTERNAL USER REPORT

.01 *An external user report should:*

- *Include the calculation date and the report date;*
- *Describe the sources of membership data, plan provisions, and the pension plan's assets, and the dates at which they were compiled;*
- *Describe the membership data;*
- *Describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work;*
- *Describe the market value of assets and a summary of the assets by major category;*
- *Describe the pension plan's provisions;*
- *Describe any commitment to provide benefits beyond the terms of the plan reflected in the valuation of pension obligations;*
- *Report the funded status at the calculation date and the applicable service cost;*
- *Disclose any pending but definitive or virtually definitive amendment of which the actuary is aware, and whether or not such amendment has been included in determining the funded status and the service cost;*
- *Disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work, and, if there are no subsequent events of which the actuary is aware, include a statement to that effect;*
- *Describe any contingent benefits provided under the pension plan and the extent to which such contingent benefits are included or excluded in determining the funded status and the service cost;*
- *Describe any benefits that are not contingent benefits and that have been excluded in determining the funded status and the service cost;*
- *Describe the method and period selected in connection with any amortizations;*
- *If the valuation is an extrapolation of an earlier valuation, then describe the method and any assumptions for, and the period of, the extrapolation; and*
- *State whether or not the valuation conforms with the actuary's understanding of the financial reporting standards specified by the terms of an appropriate engagement.*

.02 An external user report should provide the following four statements of opinion, all in the same section of the report and in the following order:

- A statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”;
- A statement regarding assumptions which should usually be, “In my opinion, the assumptions are appropriate for purposes of the valuation.”;
- A statement regarding calculations, which should usually be, “In my opinion, the calculations have been made in accordance with my understanding of the requirements of [name financial reporting standard]”; and
- A statement regarding conformity, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.” [Effective March 31, 2015]

.03 An external user report should be sufficiently detailed to enable another actuary to assess the reasonableness of the valuation. [Effective December 30, 2012]

#### **Membership data**

.04 Any assumptions and methods used in respect of insufficient or unreliable membership data would be described.

#### **Reference to report on funding**

.05 The descriptions required in the external user report may be incorporated by reference to an external user report on funding.

### **3550 DISCLOSURE**

.01 *When communicating the amount of the commuted value of a member's pension, the actuary should provide:*

- *A description of the benefit entitlements involved;*
- *A description of the actuarial assumptions used in determining the commuted value and the rate of interest to be credited between the valuation date and the date of payment;*
- *A statement of the period for which the commuted value applies before recomputation is required;*
- *When the payment of a portion of the commuted value is subject to a condition based on the funded status of the plan, the additional contribution required for the payment of the full commuted value to be made or the recommended schedule for payment of the balance of the commuted value, if applicable; and*
- *A statement as to whether the commuted value has been computed in accordance with these standards.*

.02 *Where the commuted value has not been determined in accordance with these standards, the actuary should clearly state that the calculation is not in compliance with these standards and disclose all areas of noncompliance and the reasons for the noncompliance.*

.03 *When communicating to the plan administrator an actuarial basis to be used in determining commuted values, the actuary should provide a statement that the actuarial basis is in accordance with these standards.*

#### **Disclosure of plan values which differ from these standards**

.04 *In a situation where the use of commuted values (called plan values in this subsection 3550) that are different from those computed in accordance with this section 3500, is required by the plan terms or applicable legislation, or by a plan administrator who is empowered to specify the basis on which commuted values are to be determined, the following disclosure requirements are applicable:*

- *If the plan values are lower, the actuary should disclose that the commuted values so calculated are in accordance with the plan or the applicable legislation but not in accordance with the standards; or*
- *If the plan values are higher, the actuary should disclose that the commuted values so calculated are in accordance with the plan or the applicable legislation and the standards.*

.05 *Where the actuary is required to calculate commuted values that do not vary according to the sex of the plan member, and where that requirement applies only to benefits earned after a particular date or only to a subgroup of plan members, the actuary should describe the extent to which the actuary's blended mortality approach has been extended to benefits earned before the particular date or to benefits of all members.*

.06 *Where the actuary uses assumptions or methods described in these standards to calculate a commuted value in a situation where these standards does not apply, the actuary should not state or imply that the commuted value has been computed in accordance with these standards.*  
[Effective April 1, 2009]

#### **4540 REPORTING: EXTERNAL USER REPORT**

.01 Here is model text if the actuary reports without reservation with regard to marriage breakdown:

I have determined the capitalized value of the pension benefits and prepared this report in accordance with accepted actuarial practice in Canada, for purposes of settlement of a division of pension benefits resulting from marriage breakdown under the [Family Law Act] of [province]. In my opinion, the capitalized values are appropriate for this purpose.

Respectfully submitted,

[actuary]

Fellow, Canadian Institute of Actuaries

## 4700 REPORTING

### 4710 EXTERNAL USER REPORT

- .01 For work pursuant to part 4000, any external user report that is prepared should:
- Identify the person for whom the report was prepared and, if that person is acting on behalf of a party to the dispute, that party to the dispute;
  - State the effective date of the report and the effective date of any actuarial opinions and calculations in the report;
  - Describe any terms of the appropriate engagement that are material to the actuary's work, including the role of the actuary, the scope and purpose of the work, any limitations or constraints on the work and any stipulated assumptions or methods;
  - Where the actuary is aware of circumstances where the independence of his or her expert opinion may reasonably be questioned, disclose such circumstances;
  - Disclose the results of the work;
  - Describe the data, methods, and assumptions used for the work, including the terms and the amounts of the payments relevant to any calculations, for each of the scenarios presented in the report;
  - Identify the assumptions and methods that are constrained by law, regulation, court practice, or established legal principles relevant to the work;
  - Identify the differences between scenarios where the results of multiple scenarios are presented;
  - Identify any margins for adverse deviations that are included, except where the assumption or method is mandated by law, regulation, court practice, or established legal principles relevant to the work, and the rationale for inclusion of any identified margins for adverse deviations;
  - Describe every contingency that has been taken into account, and state that there may be other contingencies that could have a positive or negative effect that have not been taken into account;
  - Disclose the extent of the actuary's reliance on others;
  - List the sources of information on which the actuary has relied; and
  - Include any other information required in accordance with the rules of civil procedure, the rules of law, or other rules that may be applicable for the relevant jurisdiction. [Effective December 31, 2013]
- .01.1 Notwithstanding paragraph 1820.01, the actuary is not required to provide an opinion on assumptions which are stipulated by the terms of engagement provided such assumptions are plausible in accordance with paragraph 4320.03.

.01.2 *Notwithstanding paragraph 1820.01, the actuary is not required to provide an opinion on assumptions or methods described in paragraph 4340.01 which are within the range of accepted actuarial practice pursuant to paragraph 4340.01. [Effective March 31, 2015]*

.02 *The actuary's external user report should be sufficiently detailed to enable another actuary to assess the reasonableness of the results. [Effective December 31, 2013]*

.03 The actuary would prepare any draft reports and other documentation, taking into account the potential disclosure of such documents that may be required as part of the dispute resolution proceedings.

.04 Where the actuary reports the results of a capitalized value calculation without reservation, the disclosure wording that may be used is:

I have determined the capitalized value of those aspects of the pecuniary damages described herein and prepared this report in accordance with accepted actuarial practice in Canada. It is my opinion that the assumptions and methods for which I have taken responsibility are appropriate in the circumstances of this case and for the purpose of this report.

Respectfully submitted,

[actuary]

Fellow, Canadian Institute of Actuaries

### **Reporting with reservation**

.05 Reporting with reservation or stating that the reporting requirements have not been followed would not excuse an actuary from these reporting standards.

.06 Notwithstanding paragraph 4340.01, the circumstances of the work may result in deviation from accepted actuarial practice in Canada. For example, the terms of the engagement may require that the actuary use an assumption that is outside of the range that the actuary considers plausible, or that the actuary use a method that the actuary considers is not appropriate, or that the actuary assist counsel with challenging a specific interpretation of the law. In such case, the actuary would disclose such deviation in the report.

### **New information**

.07 Notwithstanding paragraph 1515.01, where an event occurs, such as the availability of new information, after the actuary has completed his or her report, the actuary would consider the potential effect of such event on his or her work, and would advise his or her client on a timely basis, if appropriate and subject to the terms of the engagement.

### **Disclosure of other expert's report**

.08 The external user report need not disclose any error or shortcoming that the actuary identifies in the report of another actuary or other expert witness.

**4720 INTERNAL USER REPORT**

- .01 *Unless an internal user report conforms to the recommendations for an external user report, an internal user report should state that it is not to be given to an external user. [Effective December 31, 2013]*
  
- .02 For the purpose of determining whether or not the work is in accordance with accepted actuarial practice, an internal user report continues to be an internal user report even if, in breach of the statement required by paragraph 4720.01, it is given to an external user or utilized in the dispute resolution proceeding.

**5700 REPORTING**

- .01 For work pursuant to this part, the actuary should prepare a report that
- states the calculation date and the prior calculation date,*
  - identifies the legislation or other authority under which the work is completed,*
  - describes any significant terms of the appropriate engagement that are material to the actuary's work, including the purpose of the work,*
  - describes the sources of data, benefit provisions and policies used in the work, and any limitations thereon,*
  - summarizes the data used for the valuation, the data tests conducted to assess the accuracy and completeness of the data used in the work, and issues regarding insufficient or unreliable data,*
  - describes the plan's benefits, significant policies and relevant administration practices, including the identification of any amendments made since the prior calculation date, and the effect of such amendment on the benefits liabilities,*
  - describes any pending definitive or virtually definitive amendment, policy change or change to administration practice, confirms whether or not such amendment or change has been reflected in the benefits liabilities, and identifies the effect of such amendment or change on the benefits liabilities,*
  - identifies any significant changes to the relevant statute, strategic direction or management policy, or any significant appeal decision that changes management policy or practice, since the prior calculation date and the consequent effect on the benefits liabilities,*
  - summarizes the benefits liabilities,*
  - states that there is no provision for adverse deviations, where that is the case,*

*discloses any imposed margins that the actuary has used in accordance with paragraph 5450.03 that, in the opinion of the actuary, are outside of the appropriate range,*

*reports the aggregate provision for adverse deviations included in the benefits liabilities,*

*describes the treatment of liabilities for self-insured employers,*

*discloses subsequent events of which the actuary is aware, whether or not the events are taken into account in the work, or, if there are no significant events of which the actuary is aware, include a statement to that effect,*

*describes and quantifies the gains and losses between the prior calculation date and the current calculation date, and provides an analysis and explanation of the significant gain and loss items, and*

*describes the treatment of the liabilities for occupational disease claims, and states either that the amount of the benefits liabilities includes an appropriate allowance for potential occupational disease claims that are expected to arise after the calculation date as a result of exposures in the workplace prior to the calculation date or, if such is the case for calculation dates preceding December 31, 2014, that the amount of the benefits liabilities excludes such an allowance. [Effective March 31, 2015]*

.02 *Depending on the terms of the engagement, the report should*

*describe the sources of information on the plan's assets,*

*describe the plan's assets, including their market value, the methods and assumptions used to value the assets and a summary of the assets by major category,*

*report the financial position at the calculation date, and*

*report the actuarial present value of any future assessments earmarked to amortize a current deficit or of any reductions in future assessments intended to reduce a current surplus.*

- .03 *If the report does not include the results of the sensitivity testing that was completed, the actuary should prepare a separate report for the management of the public personal injury compensation plan that does include such sensitivity testing results.*
- .04 *The report should provide the following five statements of opinion, all in the same section of the report and in the following order*
- a statement regarding data, which would usually be, “In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”,*
- a statement regarding assumptions, which would usually be, “In my opinion, the assumptions are appropriate for the purpose of the valuation.”,*
- a statement regarding methods, which would usually be, “In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.”,*
- a statement regarding appropriateness, which would usually be “In my opinion the amount of the benefits liabilities makes appropriate provision for all personal injury compensation obligations and the financial statements fairly present the results of the valuation.”, and*
- a statement regarding conformation, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.” [Effective March 15, 2011]*
- .05 *The report would be sufficiently detailed to enable another actuary to examine the reasonableness of the valuation.*
- .06 *The circumstances of the work may result in a deviation from accepted actuarial practice in Canada. For example, the applicable legislation or the terms of the engagement may require that the actuary use a margin for adverse deviations that is outside the range that the actuary considers appropriate, or require that the actuary exclude the benefits liabilities in respect of certain occupational disease claims. In such case, the actuary would disclose such deviation in the report.*

## 6230 REPORTING: EXTERNAL USER REPORT

.01 An external user report on work pursuant to section 6200 should:

- Describe any significant terms of the appropriate engagement that are material to the actuary's advice;
- Include the calculation date, the report date, and the next calculation date, if applicable;
- Describe the sources of membership data, plan provisions, the post-employment benefit plan's assets, if any, and historical claims data, if any, and the dates at which they were compiled;
- Describe the membership data and any limitations thereof, and any assumptions made about missing or incomplete membership data;
- Describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work;
- Describe the assets, if any, including their market value and a summary of the assets by major category;
- Describe the post-employment benefit plan's provisions, including the identification of any pending definitive or virtually definitive amendment of which the actuary is aware, and the manner in which any such amendments have been reflected in the actuary's advice;
- Disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work, or, if there are no subsequent events of which the actuary is aware, include a statement to that effect;
- State the type of valuation undertaken under the terms of the appropriate engagement;
- For any one valuation undertaken, describe and quantify the gains and losses between the prior calculation date and the calculation date;
- For any one valuation undertaken, report the effect on the key results of the valuation of using a discount rate 1.0% lower than that used for the valuation; and
- For any one valuation undertaken, where relevant, report the effect on the key results of the valuation of using an assumed future claims trend rate 1.0% higher than that used for the valuation. [Effective June 30, 2013]

- .02 For each valuation undertaken by the actuary, the external user report should:
- If there is no provision for adverse deviations, include a statement to that effect;
  - Describe the claims administration expenses or other plan expenses that are included in the work; and
  - Report the results of the valuation. [Effective March 31, 2015]
- .03 An external user report that provides advice on funding should:
- Describe the rationale for any assumed additional returns, net of investment management expenses, from an active investment management strategy, included in the discount rate assumption;
  - Describe the determination of contributions or a range of contributions between the calculation date and the next calculation date; and
  - If contributions are fixed by the terms of the post-employment benefit plan or other governing documents (e.g., a collective agreement), then either:
    - Report that the contributions are adequate to fund the post-employment benefit plan in accordance with its terms; or
    - Report that the contributions are not adequate to fund the post-employment benefit plan in accordance with its terms; and
      - Describe the contributions required to fund the post-employment benefit plan adequately in accordance with its terms;
      - Describe one or more possible ways in which benefits may be reduced such that the contributions would be adequate to fund the post-employment benefit plan in accordance with its terms; or
      - Describe a combination of increases in contributions and reductions in benefits that would result in the funding being in accordance with its terms.

.04 An external user report should provide the following four statements of opinion, all in the same section of the report and in the following order:

- A statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”;
- A statement as to assumptions, which should usually be, “In my opinion, the assumptions are appropriate for the purpose(s) of the valuation(s).”;
- A statement as to methods, which should usually be, “In my opinion, the methods employed in the valuation are appropriate for the purpose(s) of the valuation(s).”; and
- A statement as to conformity, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.”

.05 An external user report should be sufficiently detailed to enable another actuary to examine the reasonableness of the valuation. [Effective June 30, 2013]

### **Significant terms of appropriate engagement**

.06 Significant terms of the appropriate engagement may include matters such as:

- The use of a specified actuarial cost method;
- The use of a specified asset valuation method, where applicable;
- The exclusion of benefits for purposes of a valuation;
- The extent of margins for adverse deviations, if any, to be included in selecting assumptions; and
- The funding policy, which may include pay-as-you-go funding.

### **Membership data**

.07 The actuary would describe any assumptions and methods used in respect of insufficient or unreliable membership or census/employee data.

.08 The actuary may describe limitations on the tests conducted in the review of the data which has been determined to be sufficient and reliable for purposes of the valuation(s). For example, the actuary may describe that the data tests will not capture all possible deficiencies in the data and reliance is also placed on the certification of the plan sponsor or plan administrator as to the quality of the data.

## Methods

- .09 For each valuation included in the external user report for which there was a prior valuation, the description of the actuarial cost method would include a description of any change to the actuarial cost method used in the prior valuation and the rationale for such change.
- .10 For each valuation included in the external user report for which there was a prior valuation, the description of the method to value the assets, if any, would include a description of any change to the asset valuation method used in the prior valuation and the rationale for such change.

## Types of valuations

- .11 An external user report with respect to a post-employment benefit plan would normally include information on only one valuation, which is typically a going concern valuation. To the extent that the external user report provides information with respect to multiple valuations, the actuary would include information with respect to the types of valuations required by the circumstances of the work.

## Assumptions

- .12 For each valuation included in the external user report for which there was a prior valuation, the description of assumptions would include a description of any changes to the assumptions used in the prior valuation.
- .13 For each valuation included in the external user report, the description of the assumptions would, if appropriate for the circumstances of the work, describe:
- The development of the assumed claim costs;
  - The claims experience information used to develop the assumed claim costs; and
  - The extent to which the claims experience information has influenced the selection of the assumed future cost trend rates.

## Relevant results of the valuation

- .14 The results of the valuation will depend on the purpose(s) of the valuation and the circumstances of the work. The results of the valuation may include such information as:
- The present value of projected benefits;
  - The present value of projected benefits allocated to periods up to the calculation date;
  - The projected cash flows; and/or
  - The service cost for periods following the calculation date.

### **Reporting gains and losses**

- .15 The reported gains and losses for a valuation would include the gain or loss due to a change in the actuarial cost method or a change in the method for valuing the assets, if any, and each significant change in assumptions and plan provisions determined at the calculation date. If an amendment to the post-employment benefit plan prompts the actuary to change the assumptions, the actuary may report the combined effect of the amendment and the resultant change in assumptions.

### **Sensitivity analysis**

- .16 When following the recommendations to illustrate the effect of a change in discount rate, trend rate or other assumption on a valuation, the actuary would maintain all other assumptions and methods as used in the underlying valuation.

### **Reference to other reports**

- .17 The disclosures required in the external user report may be incorporated by reference to another actuarial valuation report prepared in accordance with accepted actuarial practice with the same calculation date.

### **Statements of opinion**

- .18 Where different statements of opinion apply in respect of different purposes of the valuation, the above requirements may be modified but would be followed to the extent practicable.
- .19 While a separate statement regarding assumptions would usually be included in respect of each purpose of the valuation, the statements regarding assumptions may be combined where the statements do not differ among some or all of the valuation's purposes. The report would indicate clearly which statement regarding assumptions applies to each of the valuation's purposes.
- .20 While a separate statement regarding methods would usually be included in respect of each purpose of the valuation, the statements regarding methods may be combined where the statements do not differ between some or all of the valuation's purposes. The report would indicate clearly which statement regarding methods applies to each of the valuation's purposes.

## **6320 REPORTING: EXTERNAL USER REPORT**

.01 *If a previous external user report was prepared with respect to the wind-up, the actuary should describe and quantify the gains and losses between the prior calculation date and the calculation date. [Effective June 30, 2013]*

.02 *An external user report should:*

- *Include the wind-up date, the calculation date, the cut-off date, and the report date;*
- *Describe the events precipitating the wind-up, of which the actuary is aware, that affect the terms of the wind-up, the benefit entitlements, or the valuation results;*
- *Describe the sources of membership data, plan provisions, and the post-employment benefit plan's assets, if any, and historical claims data, if any, and the dates at which they were compiled;*
- *Describe the membership data and any limitations thereof, including any assumptions made about missing or incomplete membership data;*
- *Describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work;*
- *Subject to any applicable privacy legislation:*
  - *Include the detailed individual membership data; or*
  - *Include an offer to provide detailed individual membership data on request to the plan sponsor or the plan administrator;*
- *Describe the liquidation value of the assets, if any, and a summary of the assets by major category;*
- *Describe the post-employment benefit plan's provisions, including an identification of:*
  - *Any amendments made since any previous external user report with respect to the plan which affect benefit entitlements; and*
  - *Any subsequent events or post-wind-up contingent events, of which the actuary is aware, which affect benefit entitlements;*

- *Report the explicit assumption regarding the expenses of wind-up or justify the expectation that expenses will not be paid from the post-employment benefit plan's assets, if any;*
- *Report the funded status at the calculation date, and state whether an updated report will be required in the future;*
- *If applicable, report the settlement value for each plan member when settlement is to be made by cash payments to the member;*
- *Disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work and, if there are no subsequent events of which the actuary is aware, include a statement to that effect;*
- *State that the funded status at settlement may differ from that contained in the report, unless the report includes the funded status at the time of final settlement;*
- *If the actuary relies upon direction concerning unclear or contentious issues:*
  - *Describe each such issue;*
  - *Describe the direction relied upon or, where appropriate, a summary thereof; and*
  - *Identify the person providing such direction and the basis of authority of such person;*
- *Describe any post-wind-up contingent events that may affect the distribution of the post-employment benefit plan's assets, if any;*
- *Describe whether a recalculation of the value of benefit entitlements is required at settlement;*
- *Where a member has a choice of settlement options that the member has not yet made, describe the assumptions made regarding such choice;*
- *If applicable, describe the method to allocate the post-employment benefit plan's assets among classes of members and the method to distribute surplus;*
- *Describe the actuary's role in calculating settlement values, including the assumptions and methods used for their calculation; and*
- *Describe the sensitivity of the valuation results to the post-employment benefit plan's investment policy and to market conditions between the report date and the settlement date. [Effective March 31, 2015]*

.03 *An external user report should include the following four statements of opinion, all in the same section of the report and in the following order:*

- *A statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”;*
- *A statement regarding assumptions, which should usually be, “In my opinion, the assumptions are appropriate for the purpose(s) of the valuation(s).”;*
- *A statement regarding methods, which should usually be, “In my opinion, the methods employed in the valuation are appropriate for the purpose(s) of the valuation(s).”; and*
- *A statement regarding conformity, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.”*

.04 *The external user report should be sufficiently detailed to enable another actuary to examine the reasonableness of the valuation. [Effective June 30, 2013]*

### **Dates**

.05 The wind-up date of the post-employment benefit plan would be determined by the plan administrator or the plan sponsor or others with responsibility to wind up the plan, based on the plan provisions, the law, and the circumstances of the wind-up.

.06 The calculation date of the funded status would usually be the wind-up date.

.07 For a particular member, the date of calculation of benefit entitlement would depend on the circumstances of the wind-up and the terms of the post-employment benefit plan, and may be the date of termination of employment, the date of termination of membership, the wind-up date, or another date.

### **Nature of wind-ups**

.08 The purpose of a wind-up valuation may be to determine, or to provide the basis for determining:

- The funded status of the post-employment benefit plan;
- The total value of the benefit entitlements of all members prior to taking account of the funded status of the post-employment benefit plan;
- Any required additional funding;
- The amounts and methods of determining benefit entitlements, including any adjustment required due to a wind-up deficit;
- The amount and method of distribution of a wind-up surplus; or
- Payout for loss of benefit entitlements upon insolvency.

.09 A wind-up may be complex and may take a long time. Delays may require a series of reports by the actuary. Since the funded status or other available funds for the post-employment benefit plan at the final settlement date may affect whether benefit entitlements can be settled in full, the reflection of subsequent events in each report would be critical.

### **Membership data**

.10 The finality of wind-up would call for the actuary to obtain precise membership data. The membership data are the responsibility of the plan sponsor or plan administrator. However, if the actuary is working with incomplete, unreliable, or missing data the actuary would make assumptions regarding the data. The actuary may, if the circumstances dictate, include a provisional sum in the wind-up valuation with respect to missing members if the actuary believes that additional members might have benefit entitlements under the post-employment benefit plan but their membership information is missing.

### **Assumptions**

.11 The selected assumptions would:

- In respect of benefit entitlements that are assumed to be settled by purchase of insurance, reflect single premium rates; and
- In respect of benefit entitlements that are assumed to be settled in some other manner, reflect the manner in which such benefits would be settled.

.12 If future benefits depend on continued employment, the actuary would consider reflecting contingent events. For example, if a member is eligible for post-retirement benefits only if the member remains in employment until age 55, the actuary may make an assumption as to the probability of this event occurring and the member's benefit may be discounted for the probability of the event occurring.

.13 Wind-up expenses usually include, but are not limited to:

- Fees related to the preparation of the actuarial wind-up report;
- Legal fees;
- Insurer or adjudicator administration expenses; and
- Custodial and investment management expenses.

.14 The actuary would either net wind-up expenses against the post-employment benefit plan's assets, if any, or add the assumed wind-up expenses to the post-employment benefit plan's liabilities in calculating the ratio of assets to liabilities as a measure of financial security of the benefit entitlements, unless the expectation is that expenses will not be paid from the post-employment benefit plan's assets, if any. However, an exception may be made for future custodial and investment management expenses, which may be netted against future investment return in the treatment of subsequent events.

### **Subsequent events**

- .15 Ideally, in a wind-up valuation, all subsequent events would be reflected. This ensures that the funded status is presented as fairly as possible as of the report date. However, it would be impossible to recognize subsequent events right up to the report date. Accordingly, the actuary would select a cut-off date that is close to the report date.
- .16 The actuary would ascertain that no subsequent events have occurred between the cut-off date and the report date that would change the funded status significantly; otherwise the actuary would select a later cut-off date. For clarity, a subsequent event may be material yet not be so significant as to require selection of a later cut-off date.
- .17 It may be appropriate to have more than one cut-off date. For example, the actuary may select one cut-off date for the active membership data and another cut-off date for the inactive membership data.
- .18 Common subsequent events are:
- Contributions remitted to the plan;
  - Expenses paid from the post-employment benefit plan's assets, if any;
  - Actual investment return on the post-employment benefit plan's assets, if any;
  - Change in assumptions;
  - Corrections to the membership data; and
  - Deaths of members or other significant plan experience.

### **Use of another person's work**

- .19 Some aspects of the wind-up may be unclear to the actuary or contentious. Examples are:
- The determination of the wind-up date;
  - The members, former members, or recently terminated members to be included in the wind-up;
  - Whether or not to assume salary increases or health care cost trend rate in determining benefit entitlements;
  - Eligibility for benefits payable only with the consent of the plan sponsor or plan administrator;

- The liquidation value of the post-employment benefit plan's assets, if any;
- The method to allocate the post-employment benefit plan's assets, if any, among members; and
- Whether or not wind-up expenses are to be paid from the post-employment benefit plan's assets, if any, or included in the calculation of the liabilities or expected future benefits.

.20 To decide those aspects, the actuary may rely upon direction from another person with the necessary knowledge, such as legal counsel or the employer, or the necessary authority, such as the plan sponsor or plan administrator. The actuary would consider any issues of confidentiality or privilege that may arise.

**Statements of opinion**

.21 Where different statements of opinion apply in respect of different purposes of the valuation, the above requirements may be modified, but would be followed to the extent practicable.

## 6420 REPORTING: EXTERNAL USER REPORT

.01 An external user report should:

- Include the calculation date and the report date;
- Describe the sources of membership data, plan provisions, the post-employment benefit plan's assets, if any, and historical claims data, if any, and the dates at which they were compiled;
- Describe the membership data and any limitations thereof, and any assumptions made about missing or incomplete membership data;
- Describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work;
- Describe the assets, if any, including their market value and a summary of the assets by major category and the method used to value the post-employment benefit plan's assets;
- Describe the post-employment benefit plan's provisions, including the identification of any definitive or virtually definitive pending amendment of which the actuary is aware, and whether or not such amendment has been reflected in determining the plan's obligations;
- Describe any commitment to provide benefits beyond the terms of the plan reflected in the valuation of post-employment benefit obligations;
- Disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work, and, if there are no subsequent events of which the actuary is aware, include a statement to that effect;
- Include all other provisions as required for disclosure purposes as per the terms of the appropriate engagement, such as:
  - Reporting the funded status at the calculation date and the applicable service cost or expected cost of new claims;
  - Describing the method and period selected in connection with any amortizations; and
  - Stating whether or not the valuation and/or extrapolation conforms with the actuary's understanding of the financial reporting standards specified by the terms of an appropriate engagement.

- .02 *An external user report should provide the following four statements of opinion, all in the same section of the report and in the following order:*
- *A statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”;*
  - *A statement regarding assumptions which should usually be, “In my opinion, the assumptions are appropriate for purposes of the valuation.”;*
  - *A statement regarding calculations, which should usually be, “In my opinion, the calculations have been made in accordance with my understanding of the requirements of [name financial reporting standard]”; and*
  - *A statement regarding conformity, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.” [Effective March 31, 2015]*
- .03 *An external user report should be sufficiently detailed to enable another actuary to examine the reasonableness of the valuation. [Effective June 30, 2013]*

#### **Membership data**

- .04 Any assumptions and methods used in respect of insufficient or unreliable membership data would be described.

#### **Reference to other external reports**

- .05 The descriptions required in the external user report may be incorporated by reference to another actuarial valuation report prepared in accordance with accepted actuarial practice in Canada.