



## Memorandum

**To:** All Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries, and other interested parties

**From:** Conrad Ferguson, Chair  
Actuarial Standards Board

Paul Della Penna, Chair  
Designated Group

**Date:** December 12, 2017

**Subject:** **Final Standard – Revisions to General Standards (Part 1000)**

*Document 217126*

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### Introduction

The attached final standards were approved by the Actuarial Standards Board (ASB) on November 21, 2017.

### Background

The ASB created a designated group (DG) responsible for developing these revisions to the Standards of Practice. The DG consists of Michael Banks, Stephen Butterfield, Paul Della Penna (Chair), Jay Jeffery, David Oakden, and François Vincent.

A [notice of intent](#) (NOI) regarding these proposed changes was distributed by the ASB on June 22, 2015.

An [exposure draft](#) (ED) was distributed on February 8, 2017.

Comments on the ED were received from three individuals, one practice committee, and one actuarial firm.

### Summary of Comments

1. Subsection 1120 (Definitions)

**Comment:** The deletion of the definition of “domain of actuarial practice” greatly broadens the work that is subject to the general standards. This will put actuaries at a competitive disadvantage to non-actuarial service providers who are doing the same work, but are not subject to the standards. The standards should cover actuarial work only, not all work that could possibly be performed by the actuary.

**DG response:** The DG believes that actuaries should be expected to use common sense in the application of the standards. Nevertheless, the definition of “work” has been amended to refer to work that is “commonly . . . performed by actuaries” rather than work that is “commonly . . . performed by an actuary”. This minor change in wording is intended to make it clear that the standards apply to work that is actuarial in nature (the determination of which is a matter of judgment) and not to just any work that might be done by someone who is an actuary.

**Comment:** In the definition of “service cost”, the clause starting with “excluding any amount . . .” may not be required.

**DG response:** While the clarification may not be required, the DG believes that this clause does provide clarification and believes that it should be retained.

**Definition of public personal injury compensation plan:** While no comment was received, the ASB decided to leave the definition unchanged, rather than to modify the definition as proposed in the ED.

2. Section 1400 (The Work)

**Comment:** Methods and assumptions should continue to be part of this section. The definition of work in paragraph 1120.66 includes the selection of methods and assumptions. “Methods and assumptions” should be used instead of “assumptions and methods”, and should be consistent throughout.

**DG response:** The topic of assumptions is not currently in section 1400 but in section 1700. The heading of what becomes section 1600 as a result of this publication is “Assumptions and Methods” in order to retain consistency with the practice-specific standards.

3. Subsection 1430 (Subsequent events)

**Comment:** The treatment of subsequent events in future projections needs to be clarified. Paragraph 1430.03 deals only with situations where the reporting is as of the calculation date. Recommendation is that the actuary should disclose the subsequent event, but be given the choice whether to reflect it or not.

**DG response:** Projections of the financial position of an entity are based on membership data, economic conditions, etc. at a point in time. So, while a projection includes financial information in the future, the projections are based on a current state, as disclosed in the projections. For example, if work involves a 10-year financial projection and the projection is based on membership and economic conditions as at January 1, 2017, but the work is delivered in late 2017, paragraph 1430.03 would require the actuary to take into account any events that occurred between January 1, 2017 and the date of delivery of the report and determine whether such events are either worthy of reflecting in the projections or worthy of disclosure, depending on their materiality. The DG believes that no changes are required to paragraph 1430.03.

4. Subsection 1520 (Auditor's use of an actuary's work)

**Comment:** The Joint Policy Statement should be moved out of the General Standards since it does not apply to all practice areas.

**DG response:** While it may be true that the Joint Policy Statement does not currently apply to all practice areas, it is preferable to leave it in the General Standards than to copy it into several different parts.

5. Subsection 1640, old numbering (Review or repeat of another actuary's work), the deletion of which was proposed in the exposure draft

**Comment:** There is a concern that this section might be replaced with a requirement for peer review. This would not be suitable for actuarial evidence actuaries because most are sole practitioners, much of the reporting is done orally in a legal setting, the work involves actuarial present value techniques that are well established, opposing experts already review the work, and it places actuarial evidence actuaries at a disadvantage relative to other providers in this area.

**DG response:** The International Actuarial Association (IAA) model standards do include a reference to peer review and the ASB has, since the release of the ED, commissioned a DG to consider whether and how to incorporate such guidance in the Standards of Practice. The ASB has decided to leave the existing peer review standards in place, renumbered as 1530 but amended for consistency with the other changes that are the subject of this memorandum (deletion of references to Rules and consultation with Practice Council or a practice committee), until such time as the Designated Group on Peer Review has completed its work.

6. Subsection 1640, new numbering (Comparison of current and prior assumptions)

**Comment:** There should be a comment that this subsection does not apply to internal user reports. Stochastic projections done at different points in time will have a number of variations in underlying assumptions.

**DG response:** Actuaries are expected to apply common sense in the application of standards. That is especially true of the contents of part 1000, which are intended to be of general application.

7. Subsection 1710 (Reporting: external user report)

**Comment:** Some practice-specific standards may have been drafted with the understanding that the former subsection 1810 would still apply. Without a concurrent change to these practice-specific standards, unintended changes would result. This subsection should include a comment that limits the disclosure of the change in assumptions for stochastic projections.

**DG response:** The topic of the former subsection 1810 was standard reporting language. The revised part 1000 includes subsection 1740, which was not included in the ED and is intended to partially restore the former subsection 1810 under the heading "Summary report". But with respect to disclosure of the change in assumptions for stochastic projections, we do not see this as requiring a change in

the Standards. Whether and how to apply a particular element of the Standards requires the exercise of judgment.

### **Changes Incorporated in Final Standard**

The final standard includes the following changes from the exposure draft:

- Change “commonly performed by an actuary” to “commonly performed by actuaries” in the definition of work.
- Add subsection 1740 Summary report, which reads as follows:
  - .01 Where required by practice-specific standards, the actuary should prepare a summary report. [Effective February 1, 2018].
  - .02 The practice-specific standards specify the language to be used in the summary report.
  - .03 The purpose of the summary report is to simplify the actuary’s communication with users and 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.

In addition, there are a number of consequential changes to the practice-specific standards that have been made concurrently with the adoption by the ASB of the revised General Standards. Among them is the deletion of references in the practice-specific standards to Rules of Professional Conduct of the Canadian Institute of Actuaries or to consultation with the chair of a practice committee, or similar. The following presents the justification for these specific changes.

Because it is independent of the Canadian Institute of Actuaries, the ASB has no jurisdiction over the behaviour of members of the actuarial profession. Rather, the proper subject matter of the Standards of Practice is specific work, rather than the person performing that work. Furthermore since the Rules remain in place, removal of such references does not subtract in any way from the actuarial guidance that is in place.

The rationale is identical for the deletion of text in the Standards where the actuary is advised to consult, e.g., the chair of a practice committee. Such a provision is a matter for the Rules of Professional Conduct, rather than the Standards. Moreover, Rule 13 already allows for such consultations on a confidential basis.

The removal of both these types of references, of which there were about 30, from the General Standards was reflected in the ED. The final changes address, in addition, the four that remain in the practice-specific standards.

The changes that have been made concurrently with the adoption of the revised General Standards also include a few instances where expressions in the practice-specific standards should or should not have been underlined.

The specific changes to the practice-specific standards are the following:

1. In the last sentence of paragraph 2350.45 the reference to section 1700 is changed to subsection 1620.
2. In 2430.01, the reference to section 1400 is changed to section 1300.
3. In 3230.01 and in 3320.01, the reference to subsection 1740 is deleted in the relevant bullet so that it reads “Select either” and “Are either”, respectively, “best estimate assumptions or best estimate assumptions modified to incorporate margins for adverse deviations to the extent, if any, required by law or by the terms of an appropriate engagement; and”.
4. In paragraph 3260.01, the words “definitive” and “virtually definitive” have been underlined.
5. In paragraph 3330.27, the first item in the list, viz., “contributions”, has been underlined (this is a correction).
6. The last sentence in paragraph 4210.08 is deleted.
7. In paragraph 4250.04, the underlining is removed from the words “domain of actuarial practice”.
8. The last sentence in paragraph 4340.03 is deleted.
9. In paragraph 4520.22, the underlining is removed from the words “earnings-related benefit”.
10. Each of paragraphs 4710.01.1 and 4710.01.2, is changed so that the reference to paragraph 1820.01 becomes a reference to paragraph 1710.01.
11. Paragraph 4710.07 is changed so that the reference to paragraph 1515.01 becomes a reference to 1420.01.
12. In part 5000, the word “actuary” wherever it appears, has been underlined (this is a correction) and the underlining of the word “use”, wherever it appears, has been removed (also a correction).
13. Because they refer to a rule of professional conduct, the following paragraphs are deleted: 3410.04 and 6410.15.
14. Because they refer to consultation with a practice committee (or similar), the following paragraphs are deleted: 4100.10 and 4340.02.
15. The terms “circumstances of the work” or “circumstances of the case” are changed to “circumstances affecting the work” wherever they appear, for consistency with the changes to the General Standards.
16. The reference in paragraph 6100.03 has been amended so that the exclusion from the scope of part 6000 of social security programs is moved to the first item on the list so that it reads “The standards in section 6200 . . .do not apply. . .to . . .a plan within the scope of part 3000 Pension Plans or part 5000 Public Personal Injury Compensation Plans or part 7000 Social Security Programs.” At the same time, the definition of “social security program” in part 1000 has been amended by removing the last sentence in that definition.
17. In paragraph 6220.01, references to subsection 1740 are deleted so that it reads “. . . the actuary should select either best estimate assumptions or best estimate assumptions modified to incorporate margins for adverse deviations to the extent. . .”.
18. In the first bullet point of paragraph 6310.06, references to subsection 1740 are deleted so that it reads “are either best estimate assumptions or are best

estimate assumptions modified to incorporate margins for adverse deviations to the extent . . . ”.

### **Due Process**

The ASB’s Policy on Due Process for the Adoption of Standards of Practice was followed in the development of these new standards.

### **Timeline and Effective Date**

These final standards of practice are effective February 1, 2018. Early implementation is permitted.

CF, PDP