Actuarial Standards Board
Conseil des normes actuarielles

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 Geoffrey Melbourne, Chair Designated Group
Date:	March 6, 2018
Subject:	**Final Standards – Revisions to Subsection 3260 of the Practice-Specific Standards for Pension Plans – Reporting: External User Report; Advice on the Funded Status or Funding of a Pension Plan**

Document 218028

Introduction

The attached final standards, revising the Practice-Specific Standards for Pension Plans with respect to the disclosures in an external user report on work pursuant to subsection 3260 – Advice on the Funded Status or Funding of a Pension Plan, were approved by the Actuarial Standards Board (ASB) on February 20, 2018.

Background

The ASB created a designated group (DG) to develop these revisions to the Standards of Practice to enhance the disclosures of future pension plan funding risks. The current members of the DG are Edward Gibson, Geoffrey Melbourne (Chair), Phil Rivard and Tony Williams.

A notice of intent (NOI) on these revisions was issued on July 6, 2016 in respect of which the DG received 18 submissions.

The main changes made by the DG in its deliberations following the feedback were

- Moving from a prescriptive to a principles-based approach for the new disclosures; and

- Not requiring the additional risk assessments to be conducted where this is precluded by the terms of the engagement under which the work is being performed, provided there is no conflict with the law.

An exposure draft (ED) on these revisions was then issued on June 20, 2017. A summary of the comments received and the DG's responses appears in the appendix.

Due Process

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

Effective Date and Early Implementation

These final standards are effective on March 1, 2019. Early implementation is permitted.

CF, GM

Appendix: Final Standards – Revisions to Subsection 3260 of the Practice-Specific Standards for Pension Plans – Reporting: External User Report; Advice on the Funded Status or Funding of a Pension Plan

Summary of the Comments Received on the Exposure Draft (ED) and the DG's Responses

Comments Received

The DG received eight submissions on the ED (down from 18 for the notice of intent (NOI)), from one pension plan organization, two individual members, four pension consulting firms, and the Committee on Pension Plan Financial Reporting (PPFRC).

Summary of Main Issues Raised and the DG's responses

Issue	Additional Details/DG Response
Drivers of change	▪ The DG believes that it addressed this concern sufficiently in developing the ED, but would also note at this stage that this initiative is part of the ASB's 2016-2021 Strategic Plan.
Suitability of actuarial reports/standards for these disclosures	▪ To the extent that risk disclosures are already being performed as consulting exercises, as suggested in some of the feedback, it should be relatively straightforward to cover the requirements of the new standards in an actuarial report, especially given the move to a principles-based approach. ▪ It has also been suggested that plan members, who might be key beneficiaries of any additional disclosures or actual bearers of pension plan risk, are not intended users of actuarial reports. Plan members would not be the only beneficiaries of these disclosures and it has been acknowledged that they are entitled to view actuarial reports. In this regard, the enhanced disclosures are consistent with the ASB's public interest mandate. ▪ The DG also does not believe that arguments about the lack of sophistication of plan members and users of actuarial reports are necessarily justified. Relative to pension plan funding in general, it is not apparent that these disclosures would increase the degree of complexity disproportionately.
Precision of scenarios	▪ Some feedback indicated concern that actual outcomes for the risks considered are likely to differ from the assumptions under the plausible adverse scenarios. The DG expects that supplementary educational guidance would provide further clarity in this area, but the intention

	is that the plausible adverse scenarios would generally tend towards "worst case" and there is no expectation that such outcomes would typically be realized in practice; in other words, the scenarios are not intended to be predictions. The goal is to assist the parties who bear pension plan funding risks in evaluating whether the potential risk exposures are tolerable.
Exposing actuaries to litigation	▪ Notwithstanding the move from a prescriptive to a principles-based approach for the additional disclosures, the list of risks to be considered remains unchanged. While acknowledging that a party who suffers a loss can always seek to bring an action against parties considered culpable, the DG observes that a key criterion for standards is that they generally provide for the appropriate application of professional judgment within a reasonable range.
Ability of the plan funder to continue to make contributions	▪ One submission flagged that the additional disclosures overlook the ability of the plan funder to continue to make contributions, which is described as "the biggest threat to many plans' financial conditions". The same submission goes on to say that "this is not something that the actuary can easily assess". The DG does not believe that required disclosures in this area would be generally practical. However, as noted above, the DG believes that the additional disclosures as proposed would be useful in assisting the parties who bear pension plan funding risks in evaluating whether the potential risk exposures, including contribution requirements for plan funders, are tolerable.
Costs	▪ As noted in responding to the comments on the NOI, the DG does not believe that cost in isolation ought to be the primary determinant of whether the assessments are performed. In addition, the DG expects that the costs would be manageable and typically a small fraction of the quantum of the risk exposures they would illustrate. The costs would also be expected to moderate over time as practice develops and comfort builds.
Mandatory versus optional disclosures	▪ Feedback was provided both for and against the notion of not requiring the additional disclosures when precluded by the terms of the engagement. One submission also pointed to subsection 1220 of the general standards which already addresses this issue. On reflection, the DG thought it appropriate to delete this exception in the pension standards, with the intention that this issue be covered under supplementary educational guidance.

Long-term versus short-term focus and plans excluded	▪ Some feedback questioned why the additional disclosures were not required on a solvency or wind-up basis (as opposed to or in addition to a going concern basis), and why there were exceptions for plans like non-registered plans. The DG believes that the limited application of the additional disclosures is a reasonable compromise which enhances their practicality, noting that some elements of the going concern disclosures could be extrapolated on a solvency or wind-up basis and that actuaries and their clients could always choose to extend the application if considered appropriate.
Contribution impact	▪ Some feedback indicated that the additional disclosures would have less value since they do not address the impact on going concern deficit payments or cash funding generally. The DG believes that there is value of the additional disclosures, even with the limited application, and notes the consistency with the current disclosures for the current 1 percent discount rate sensitivities. Again, actuaries and their clients could always choose to extend the application if considered appropriate, and the pension standards could evolve in this and other areas over time.
Defined contribution incremental cost	▪ In response to one submission, and though not relating to an aspect of the standards which the DG originally intended to address, the reference to the "incremental cost" in respect of the defined contribution portion of the plan has been updated to the "service cost", to reflect the expected application by most actuaries in situations where this disclosure would arise.
1 percent discount rate sensitivities	▪ One submission flagged the possible misinterpretation of the current 1 percent discount rate sensitivities (as "times 0.99" rather than "minus 100 bps"); however, the DG believes that there is widespread understanding of and comfort with the existing language, and hence no need to change it.
Effective date	▪ To allow sufficient time to develop supplementary educational guidance, and for actuaries to plan for the inclusion of these additional disclosures, the effective date has been set as March 1, 2019.