



Exposure Draft

Revisions to Sections 3400 and 6400 of the Standards of Practice for Consistency with ISAP 3

Actuarial Standards Board

July 2018

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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
Catherine Robertson, Chair
Designated Group

Date: July 17, 2018

Subject: **Exposure Draft for Revisions to Sections 3400 and 6400 of the Standards of Practice for Consistency with ISAP 3**

Comment Deadline: October 19, 2018

Introduction

This exposure draft (ED) proposes changes to the Standards of Practice sections 3400 (pensions) and 6400 (post-employment benefit plans) for consistency between the two sections and with ISAP 3. It was approved for distribution by the Actuarial Standards Board (ASB) on July 12, 2018. Due process has been followed in the development of this ED.

Background

The ASB agrees in principle that Canadian standards should converge towards international standards of actuarial practice. The ASB therefore established a designated group (DG) to review the standards of practice for consistency with ISAP 3.

The ASB is also committed to enhancing consistency of standards across practice areas, where appropriate. With this background in mind, the DG's mandate was expanded to include a review of sections 3400 and 6400 for consistency.

A [notice of intent](#) to provide background and general information on these proposed changes was issued on October 4, 2017. A summary of the comments received and the DG's responses follow.

Summary of Major Issues Raised by Stakeholders and Proposed Response

Three responses were received. They were generally in favour of continuing with a principles-based approach and in favour of consistency, where it is in the best interest of the Canadian public. As a result, the exposure draft changes are consistent with the proposals in the NOI and there are no issues for which input is being specifically sought.

One response suggested that the ASB consider adopting the international standards ISAP 3 (and ISAP 1) specifically with respect to work pursuant to International Accounting Standard (IAS) 19. While the DG sees merit in this suggestion for work pursuant to IAS 19 being done outside of Canada, we feel it would be difficult to implement the suggestion in practice. Further, the DG also agrees with the respondent's suggestion that this approach should not be implemented in isolation and, if adopted, should apply to work in connection with all IAS's and International Financial Reporting Standards (IFRS).

Timeline

It is the responsibility of the ASB to make final decisions regarding the revised standards of practice. It is anticipated that the ASB would adopt final standards with an effective date no earlier than February 1, 2019. Early implementation would likely be permitted.

Members of the DG

The group responsible for the development of the revisions to these standards of practice consists of Christiane Bourassa, Doug Chandler, Laura Newman, Catherine Robertson (Chair), and Maria Zaharia.

Your Feedback

The ASB is soliciting feedback on this ED from members of the CIA and other stakeholders. Comments on the proposed revisions are invited **by October 19, 2018**.

Please send them, preferably in an electronic format, to Catherine Robertson at crobertson@eckler.ca, with a copy to Chris Fievoli at chris.fievoli@cia-ica.ca. No other forums for the receipt of comments are currently contemplated.

Due Process

The ASB's Policy on Due Process for the Adoption of Standards of Practice was followed in the development of this ED.

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- .04 In giving advice to a participating employer regarding the funding of a benefit plan, the actuary may first calculate a range, at any point of which funding would be appropriate. That range is the crux of the work, so a participating employer's financial interest would not influence its calculation. It is, however, appropriate and usually desirable for the actuary to consult the participating employer in the selection of the recommended funding within the range. The participating employer's financial interest—for example, the participating employer's tolerance of fluctuation in the recommended rate of funding between one funding period and the next—would be taken into account in that consultation.
- .05 Note, however, that the recommendation does not preclude the actuary's use of assumptions or methods selected by the client or employer in an appropriate engagement, but the actuary would report such use.
- .06 Note also that the purpose of the work will influence the actuary's selection of assumptions and methods. The financial interest of the client or employer may shape the purpose of the work if the engagement is an appropriate engagement and the purpose is reported.

1340 General knowledge

- .01 The actuary should have adequate knowledge of the conditions in the practice area in which the actuary is working. [Effective February 1, 2018]
- .02 Where the actuary's work in a practice area meets the definition of actuarial evidence work, the actuary should have adequate knowledge of the conditions in both the practice area in which the actuary is working and the actuarial evidence practice area. [Effective February 1, 2018]
- .03 The relevant conditions may include legislation, accounting standards and policies, taxation, the financial markets, family law, and court practices. The relevant legislation depends on the engagement, and may include legislation governing securities, pensions, insurance, workers' compensation, and employment standards.

1350 Knowledge of the circumstances affecting the work

- .01 The actuary should take into account the circumstances affecting the work that the actuary is undertaking. [Effective February 1, 2018]
- .02 The circumstances affecting the work include the purpose of the work, the terms of the appropriate engagement under which the work is being performed, and the application of the law to the work.
- .03 The relevant knowledge for a corporate entity or benefit plan is that of the operations of the entity itself and may include that of the industry in which the entity operates. Usually, the entity is the actuary's client or employer but may be a proposed acquisition or merger partner of the client or employer.

3400 Financial Reporting of Pension Costs

- .01 This section 3400 applies to advice that an actuary provides with respect to financial reporting of a pension plan's costs and obligations in the employer's or the pension plan's financial statements, where the calculations and advice are provided in accordance with an applicable financial reporting standard.

3410 General

- .01 For financial reporting purposes, the actuary should use methods and assumptions for the value of assets and pension benefit obligations that are appropriate to the basis of financial reporting in the employer's or pension plan's financial statements, as applicable, and that are consistent with the terms of an appropriate engagement and the circumstances affecting the work. [Effective ~~February 1, 2018~~ Month XX, 201X]

Circumstances affecting the work

- .01.1 For the purposes of section 3400, the circumstances affecting the work would include
- The terms of the appropriate engagement under which the work is being performed; and
 - The application of the law to the work.

- .02 The actuary would reflect the financial reporting standards specified by the terms of the appropriate engagement. Where financial reporting standards require methods and assumptions to be established by the preparers of the financial statements, the actuary would use the methods and assumptions specified by the preparers of the financial statements.

Plan provisions

- .02.1 The actuary would determine the plan provisions with sufficient accuracy for the purposes of the valuation. Sources of information on plan provisions include, where relevant
- Current plan documents;
 - Administrative practices;
 - Cost-sharing arrangements; and
 - Communication between the plan sponsor or plan administrator and the plan members or collective bargaining agent.
- .02.2 The actuary would consider all benefits in accordance with the terms of the appropriate engagement that are to be payable under the pension plan and would include provision for all such benefits expected to be paid under the plan.

Anticipated amendment or deferred recognition of a pending amendment

- .02.3 The actuary's advice on a pension plan may reflect an expected amendment to the plan if the amendment is definitive or virtually definitive, as appropriate, based on the applicable financial reporting standard.
- .02.4 The effective date of the amendment is the date at which the amended benefits take effect, as opposed to the date when the amendment becomes either definitive or virtually definitive.
- .02.5 If an actuary is aware of an expected amendment to the pension plan, but does not reflect the amendment in the work, then the actuary would report the event in accordance with the requirements for the disclosure of subsequent events.

Data

- .02.6 In identifying the data need, the actuary would bear in mind the pertinent benefits (i.e., those applicable during retirement, disability, or following termination of employment).
- .02.7 The actuary may use data, including membership data, with an effective date different from the calculation date. In extrapolating data or results, the actuary would consider actual benefit payments and other relevant events between the effective date of the data and the calculation date. The actuary would not normally extrapolate membership data more than three years from the effective date of the membership data.

Assumptions

- .03 The assumptions that the actuary uses would be best estimate assumptions, unless otherwise specified in the relevant financial reporting standards or as otherwise selected by the preparers of the financial statements.
- .04 Repealed

Benefit commitments

- .05 The actuary would include in the valuation of pension benefit obligations the effect of a commitment to provide benefits beyond the terms of the plan to the extent stipulated by the preparers of the financial statements.

Expenses

- .05.1 The actuary's advice on a pension plan would take account of expenses, including whether or not they are expected to be paid from the pension plan's assets, if any.

Extrapolations

- .05.2 The actuary may extrapolate results of an earlier valuation using appropriate extrapolation techniques. The actuary would not normally extrapolate valuation results more than four years from the effective date of the membership data.

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 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 market value of assets and a summary of the assets by major category;
- Describe the pension plan's provisions;
- Describe any material accounting policies relevant to the work;
- 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 and/or extrapolation conforms with the actuary's understanding of the financial reporting standards specified by the terms of an appropriate engagement. [Effective ~~March 31, 2015~~ Month XX, 201X]

.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.

.05 Reference to report on funding

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

6400 Financial Reporting of Post-Employment Costs

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

6410 General

- .01 For financial reporting purposes, the actuary should use methods and assumptions for the value of assets, if any, and post-employment benefit obligations that are appropriate to the basis of financial reporting in the employer's or post-employment benefit plan's or trust's financial statements, as applicable, and that are consistent with the circumstances affecting the work. [Effective February 1, 2018]

Circumstances affecting the work

- .02 For the purposes of section 6400, the circumstances affecting the work would include:
- The terms of the appropriate engagement under which the work is being performed; and
 - The application of the law to the work.
- .03 The actuary would reflect the financial reporting standards specified by the terms of the appropriate engagement. Where financial reporting standards require methods and assumptions to be established by the preparers of the financial statements, the actuary would use the methods and assumptions specified by the preparers of the financial statements.

Plan provisions

- .04 The actuary would determine the plan provisions with sufficient accuracy for the purposes of the valuation. Sources of information on plan provisions include:
- Current plan documents;
 - Funding or underwriting arrangements;
 - Collective bargaining agreements;
 - Information regarding past practices;
 - Cost-sharing arrangements between the plan sponsor(s) or plan administrator and plan members; and
 - Communication between the plan sponsor or plan administrator and the plan members.

Prior plan provisions may be needed to analyze claims information from periods prior to the calculation date.

- .05 The actuary would consider all benefits in accordance with the terms of the appropriate engagement that are to be payable under the post-employment benefit plan and would include provision for all such benefits expected to be paid under the plan.

Anticipated amendment or deferred recognition of a pending amendment

- .06 The actuary's advice on a post-employment benefit plan may reflect an expected amendment to the plan if the amendment is definitive or virtually definitive, as appropriate based on the applicable financial reporting standard.
- .07 The effective date of the amendment is the date at which the amended benefits take effect, as opposed to the date when the amendment becomes either definitive or virtually definitive.
- .08 If an actuary is aware of an expected amendment to the post-employment benefit plan, but does not reflect the amendment in the work, then the actuary would report the event in accordance with the requirements for the disclosure of subsequent events.

Data

- .09 In addition to the current plan membership and asset data, if any, the actuary would collect information on historical claims experience, such as nature of absence and benefit levels. Data may come from the plan sponsor or plan administrators or other sources, such as insurance carriers, brokers, or external third-party plan administrators.
- .10 In identifying the data needed, the actuary would bear in mind the pertinent benefits (i.e., those applicable during retirement, disability, or following termination of employment). If applicable, the actuary may obtain claims data split by plan, by age, by location, by status (retiree, inactive, spouse, etc.) and by type of expense (drug, hospital, payment for loss of income, etc.).
- .11 Where appropriate, in analyzing any relevant historical claims data, the data would be adjusted to reflect the trend in the cost of benefits between the reference period and the calculation date. Where appropriate, the actuary would also adjust past experience results to reflect non-recurring influences such as changes in the benefits offered, significant changes in the demographics of the group, changes in government programs, or unusual claims.
- .12 Available data may have limited value or low credibility. Where the benefit cost for former members or current retirees is not fully credible or does not reasonably represent the likely benefit cost for similar future groups, the actuary may rely on the experience of active members or other sources of data that the actuary considers reasonable and relevant. Such other data would be adjusted appropriately for the expected differences between these groups and the group from which the data were drawn.

- .13 The actuary may project data, including membership data and data with respect to claim costs from the effective date of the data to the calculation date, using appropriate extrapolation techniques. The actuary would not normally extrapolate membership data more than three years from the effective date of the membership data. The actuary may also use recent credible claims experience in the extrapolation.

Assumptions

- .14 The assumptions that the actuary uses would be best estimate assumptions, unless otherwise specified in the relevant financial reporting standards or as otherwise selected by the preparers of the financial statements.
- .15 Repealed
- .16 In determining initial claim costs assumptions, the actuary would consider available claims experience with regards to items such as:
- Claimant age, member status, coverage category, and benefit type;
 - Credibility; and
 - Relevance to future periods and future benefit provisions.
- .17 In situations where there are insufficient data with respect to claim costs—for example, if the post-employment benefit plan has only a small number of members or does not yet have any members in payment status—the actuary may develop the applicable assumptions based on experience with other similar plans.
- .18 If the actuary is determining the assumption with respect to the future claims trend rate, where necessary, it may be divided into short-term and longer-term components. The short-term component would often be based on the level experienced in the recent past by the plan and plan members. The longer-term component would be consistent with the assumption regarding future changes in benefit programs and general economic conditions such as nominal Gross Domestic Product growth. The actuary would determine the period of time required to transition from the short-term trends to the longer-term trends.

Expenses

- .19 The actuary's advice on a post-employment benefit plan would take account of expenses, including whether or not they are expected to be paid from the post-employment benefit plan's assets, if any.

Benefit commitments

.19.1 The actuary would include in the valuation of the post-employment benefit obligations the effect of a commitment to provide benefits not specified in the terms of the plan to the extent stipulated by the preparers of the financial statements.

.20 The actuary would consider, as part of the claims experience, the administration costs related to the adjudication of the claims including any related general administration expenses charged by the party adjudicating the claims and all applicable taxes. The actuary may also consider other expenses related to the post-employment benefit plan.

Extrapolations

.21 The actuary may extrapolate results of an earlier valuation using appropriate extrapolation techniques. The actuary would not normally extrapolate valuation results more than four years from the effective date of the membership data.

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 material accounting policies relevant to the work;

- 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;
 - Describe any contingent benefits provided under the post-employment benefit 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;
 - Describing the method and period selected in connection with any amortizations;
 - If the valuation is an extrapolation of an earlier valuation, describe the method and any assumptions for, and the period of, the extrapolation; 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. [Effective ~~February 1, 2018~~ Month XX, 201X]

.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

~~.04.05~~ 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.