

MEMORANDUM

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

From: Josephine Marks, Chair
Actuarial Standards Board

Simon Curtis, Chair
Designated Group on Development of Standards Related to IFRS 17

Lesley Thomson, Chair
Designated Group on Impact of IFRS 17 on the Role of the AA/VA

Date: December 8, 2021

Subject: **Final Standards – Changes Required by the Adoption in Canada of IFRS 17 (Insurance Contracts)**

Document 221136

Introduction

These changes to the general standards (Part 1000) and the practice-specific standards for insurance (Part 2000) were approved for distribution by the Actuarial Standards Board (ASB) on November 24, 2021. Due process has been followed in the development of these standards.

The notices of intent providing the background and general information on these proposed changes were distributed by the ASB on June 22, 2015, (for the Designated Group on Development of Standards Related to IFRS 17) and December 9, 2019 (for the Designated Group on Impact of IFRS 17 on the Role of the Appointed Actuary/Valuation Actuary (AA/VA)).

The initial exposure draft (ED) was published in May 2018, the first revised ED in March 2020, and the second revised ED in February 2021.

Background

The International Accounting Standards Board (the Board) issued IFRS 17 for the valuation of insurance contracts under International Financial Reporting Standards® (IFRS). The Canadian Accounting Standards Board has endorsed and incorporated into Canadian generally accepted accounting principles IFRS 17, with an effective date of annual reporting periods beginning on or after January 1, 2023.

These developments require changes to the Canadian Standards of Practice (SOP), as the valuation methods under IFRS 17 are significantly different from the current methods of valuation of insurance contracts in Canada.

The International Actuarial Association (IAA) has developed the International Standard of Actuarial Practice 4 (ISAP 4) in relation to IFRS 17. ISAP 4 covers actuarial practice in support of valuation of insurance contract liabilities in accordance with IFRS 17.

The proposed changes align the SOP with the requirements of IFRS 17, and incorporate the guidance of ISAP 4.

While IFRS 17 itself does not require an actuary to value the insurance contract liabilities or provide an opinion on the valuation, an actuary will usually be employed as a professional expert on insurance contract valuation. Furthermore, under relevant legislation in Canada, the actuary may be required to value the insurance contract liabilities in accordance with IFRS 17 and provide an opinion on the valuation. The SOP will apply whenever an actuary performs work related to an IFRS 17 valuation.

Summary of proposed changes (exposure drafts and final)

The text below summarizes the proposed changes, including those in the initial ED (2018), the revised ED (2020), and the second revised ED (2021).

Part 1000 General Standards

The proposed changes to Part 1000 are minimal. They relate primarily to terminology changes and example changes, made to ensure Part 1000 and the revised Part 2000 (where the substantive changes are made) remain aligned. Importantly, we do not believe any of the changes to Part 1000 affect areas of actuarial practice other than those related to IFRS 17 valuation.

Part 2000 Insurance

The changes to Part 2000 are substantial. The current Sections 2100 (Insurance Contract Valuation: All Insurance), 2200 (P&C Valuation), and 2300 (Life and Health Valuation) have all been replaced.

Note that Part 2000, with the exception of Section 2800 related to public personal injury compensation plans, covers only valuations in accordance with IFRS 17 – it is not a general insurance contract valuation standard of practice applicable to other situations.

Section 2100 is a short section that covers the scope of application and the organization of Part 2000. Text has been added in paragraph 2110.04 to highlight which standards are applicable if a valuation is not required to be in accordance with IFRS 17.

Section 2200 covers general considerations for performing a valuation in accordance with IFRS 17, including how Part 2000 integrates with Part 1000, a glossary of terms unique to Part 2000, and considerations unique to Canada, such as Canadian reporting and opinion requirements. Paragraph 2210.05 was added to cover the actuary's use of the work of others in performing an IFRS 17 valuation.

Subsection 2230 has been revised to reflect changes in how the appointed actuary/valuation actuary will fulfil their legislated role with respect to the valuation of insurance contracts and the opinion thereon. The most significant changes are an enhanced description of the presentation in the financial statements, changes to the standard opinion wording, and changes to examples of situations where reservation in reporting is required.

Section 2300 reflects, with minimal changes, the text of ISAP 4 as approved by the IAA in November 2019.

Sections 2400 (The Appointed Actuary), 2500 (Financial Condition Testing), 2600 (Ratemaking: Property and Casualty Insurance) and 2700 (Policyholder Dividend Determination) are unchanged.

A new Section 2800 (Public Personal Injury Compensation Plans) replaces Part 5000, with separate sections for the valuation of insurance contract liabilities for financial reporting and the valuation of benefits liabilities for funding purposes. References to Part 5000 have been changed to refer to Section 2800 throughout the Standards of Practice.

Feedback from stakeholders

Stakeholder feedback was solicited for each of the three EDs. The designated groups (DGs) appreciate the feedback received and have taken it into account in the final standards. The following outline the key issues raised and the responses:

- The new Section 2200 (based on ISAP 4) only applies to valuations in accordance with IFRS 17, while the scope of the current practice-specific standards extends to valuations in entities that are not subject to IFRS. Practitioners in this area expressed concern about losing standards, but also did not wish to be captured in the scope of IFRS 17. Therefore, practitioners will prepare an educational note to support actuaries working in this area.
- Some stakeholders expressed the view that the proposed standards should include promulgation of the risk-free interest rate curve on the basis that there is no compelling reason for different preparers (actuaries) valuing insurance contract liabilities to have a different view on such assumptions. Notwithstanding that IFRS 17 gives preparers discretion in this area, to address concerns related to discount rate practices, a significant framework has been put in place by the CIA to drive consistency of practice with respect to discount rates in general. This includes an educational note on the development of discount rates for the IFRS 17 valuation providing guideline minimum liability thresholds, a tool to help actuaries derive the discount curves to perform the above test, and regular publication of fully derived “reference” curves for discounting the most liquid and illiquid insurance contracts which can be used to derive comparative values. The ASB will continue to monitor this concern and does not rule out taking action should emerging practice show significant issues in this area.

- Some appointed actuaries expressed concern about providing an opinion that policy liabilities are “appropriate” when the actuarial profession no longer sets the valuation basis. The response was to modify the standard wording of the Appointed Actuary’s opinion to clarify the context of the word “appropriate.” In addition, an educational note will be prepared to expand on:
 - Changes related to the actuary’s opinion on the fair presentation of the valuation in the financial statements; and
 - Situations where the actuary uses the work of others and must decide whether to take responsibility for that work.

Effective date

The effective date of the final standards is January 1, 2023, but, in the case of financial statements prepared in accordance with IFRS 17, it only applies to work in respect of interim or annual statements prepared pursuant to IFRS 17; that is, relating to financial years beginning on or after January 1, 2023. Early implementation is prohibited.

Members of the DG on Development of Standards Related to IFRS 17

Hélène Baril, Simon Curtis (Chair), Micheline Dionne, Stéphanie Fadous, Conrad Ferguson, Marco Fillion, Cynthia Potts, Warren Rodericks, Rebecca Rycroft, Lesley Thomson, and Jacques Tremblay.

Members of the DG on Impact of IFRS 17 on the Role of the AA/VA

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JM, SC, LT