



INTERNATIONAL ACTUARIAL ASSOCIATION
ISAP 4 Task Force of the ASC Meeting
Thursday, April 20, 2017, 8:00-10:00
Room: MARGIT A & B
Budapest Marriott Hotel, Budapest, Hungary
Minutes

1. Introduction and Welcome and Approval of Agenda

The Chair, Micheline Dionne, conducted roundtable introductions and presented the agenda. The Agenda was agreed as presented.

2. [Minutes of the meeting in Cape Town](#)

The minutes were noted without comment.

3. Verbal report on activities of the TF since Cape Town

Micheline reported that the TF had regular conference calls (usually every two weeks) since Cape Town to consider the comments received in Cape Town and continue developing the exposure draft. The comments received in Cape Town have been discussed by the TF and the changes made are reflected in the current draft.

The TF continued to strive to streamline the document with the right level of detail, with minimal recapping of guidance in the IFRS standard and educational content, only to the extent deemed necessary to set context and maintain the flow.

The TF attempted to position the responsibility of the actuary and the reporting entity more clearly – this was a question raised with the ASC. The TF used ISAP 3 as a model when drafting.

The current draft has highlighted glossary terms, differentiating the IASB terms separately. The terms marked in blue font with a dotted underline are terms defined in the ISAP glossary, while the terms in green font with double underline denote the terms defined in the IFRS standard.

The TF also reviewed the draft ISAP 4 for known changes to IFRS 17 where the wording was published by the IASB.

Micheline reiterated that the attached [draft of ISAP 4](#) is a work in progress. It is only intended as a discussion draft for the Actuarial Standards Committee (ASC) and their Task Forces. The text is based on the IFRS 17 exposure Draft of 2013 with some updates posted by the IASB on their website. Once the final IFRS 17 text is made available, the TF and the ASC will complete their work, publishing an exposure draft to solicit comments

4. Feedback from the ASC meeting (Micheline Dionne)

Micheline reported that her time at the ASC meeting was short due to a “double booking” with another meeting, and that further discussions with the ASC will continue on Saturday. The ASC provided high-level feedback on the ISAP 4 draft circulated before the meeting. The ASC felt that the role of the actuary vs. the reporting entity was not always clear. The level of detail in some paragraphs is still debatable. The ASC agreed that IFRS terms may be differentiated from the ISAP definitions within the draft (e.g. green font with solid double underline), but the IFRS definitions should not be added to the ISAP glossary, except for perhaps a few selected core terms in IFRS 17 such as “insurance contracts” already defined in IFRS 17 and other terms such as “contract boundary” where a definition would be useful. A reader would have to refer to IFRS 17 for the definitions of any other of the IFRS terms.

5. ISAP 4 – Discussion points

Micheline invited comments on the draft ISAP 4. The comments received are summarised below:

- Provide more emphasis on classification of contracts, especially when the actuary is doing the calculations (as opposed to advising the reporting entity). The guidance in 2.2. is meant to cover this, but it needs to be made more clear.
- ISAP 4 may need more guidance on grouping and aggregation based on what is in the final IFRS 17
- The final IFRS 17 will also address the changes in CSM due to the impact of current experience and changes in assumptions on future CFs. Guidance could be controversial on that topic, at least in certain markets.
- Portfolio is a common term in the actuarial jargon, but is defined in IFRS different to the general use of the term by actuaries. It is recommended to use portfolio only when it is referred to the IFRS defined term, and in other cases use wording such as “group of business”.
- There is guidance such as “should be satisfied” and “should consider”. Is it addressed anywhere that the process the actuary used “to consider” or “be satisfied” should be documented? And what is the sufficient level of documentation? Is the guidance in ISAP 1 2.13 and Section 3.1 adequate?
- What exactly does satisfied mean? Satisfaction can be different between actuaries, is it a good benchmark? Particularly when the actuary relies on the work of others, how can the actuary be satisfied? When the actuary relies on the work of others, the actuary can state the reliance, but does the guidance “should be satisfied” require the actuary to audit the thing that is being relied on? The guidance on reliance on others in ISAP 1 does not address this question. The TF was requested to give further thought and consider a suitable fix such as revising guidance to “should be satisfied or indicate reliance”.

However, it was agreed that reliance should not be placed blindly, if the actuary sees something wrong he should draw attention to it.

- The order in which things are done is important, but there is no natural clear order which would apply across the board when doing IFRS 17 work. A suggestion was made to include some guidance to follow the reporting entity’s accounting policies or be consistent with the order applied previously. Any changes in the order should be disclosed and explained appropriately.
- Paragraph 2.6. –When is it appropriate to use PAA? There are various interpretation on when PAA could be applied, and huge variations exist in practice. Is more guidance needed in ISAP 4? Reference to sensitivity tests may be useful.
- Beyond 2.6.1, the PAA section doesn’t give guidance to the actuary other to comply with IFRS 17. It was suggested to review the IAN on that topic for more substance.
- There are still some paragraphs in ISAP 4 which infer that the actuary should comply with the guidance in IFRS 17 and provide no further guidance. Such paragraphs are still viewed by some as useful to actuaries who are new to this work to fulfil their responsibility. The TF should look for a reasonable balance.
- 2.6.3. - The materiality in this paragraph should be in consideration of the income statement and not the balance sheet. In 2.6.5. – It was recommended to use the fulfilment cashflows and not the BBA approach to determine the existence and amount of any onerous contract liability.

- The TF was cautioned on the use of the word materiality to avoid confusion with accounting materiality, and it is recommended to use words such as significantly or substantially in other cases.
- 2.5.18 – The determination of acquisition expenses is a very highly political accounting issue in some markets. Some would prefer the topic not be addressed by ISAP 4.
- Portfolio vs. homogeneous risk groups (HRGs) – HRGs usually appear in regulatory standards (e.g. Solvency II). Although it is generally used in regulatory standards, fundamentally HRGs are an actuarial concept to group things that are similar, to facilitate analysis, whether the concept of HRGs is labelled as such or using a different terminology. There was support in referring to the concept in ISAP 4.
- 2.5.6. - For General Insurance, liabilities are rarely determined contract by contract. The practical approach is to create HRGs, assess them and consider changes. The IASB is thinking in terms of portfolio of contracts with multi risks, but it is a portfolio of similar risks that is considered in HRGs when setting assumptions. P&C actuaries were requested to offer revised wording (Jacqueline Friedland).
- 2.5.2. c – Treatment of anticipated legislative changes, court decisions have very specific accounting guidelines in IAS 10 and 12. The paragraph should be revised to give more prominence to the reference to IAS 10 and 12. Perhaps this could be achieved by moving “in accordance with IAS 10 and 12” to the beginning of the sentence.

6. Next steps

- The TF will consider the comments received in Budapest and make changes to the draft as appropriate
- Once the IFRS 17 is published, the TF will review the draft against IFRS 17 and make changes where necessary
- Consider the defined terms to add to the glossary (e.g. should “contract boundary” be a defined term?), and which IFRS definitions to mark up in the draft.
- The TF will prepare a toolkit, possibly showing the relationships between the related documents such as ISAP 1, ISAP 1A and IFRS 17, to assist with the consultation process.
- Timing – provided IFRS 17 is published in May, a draft will be provided to the ASC in August for their review and feedback in Chicago. The ED is likely to be published in January 2018 with a comment period of 6 months. The TF aims to have the final ISAP 4 adopted in the fall of 2019.

7. Closed Session – was not held as it was deemed unnecessary.

The Chair concluded the meeting thanking everyone for the lively discussion and the very productive meeting.

The next face-to-face meeting will be in Chicago 4-7 October 2017.

The following conference calls have been scheduled in the interim period:

May 16, 23

June 6

July 5, 18

August 8, 22

September 5, 19

All calls will be at 7:30 am Eastern Time (US) for a duration of 90 minutes.

Attendance List:

Members

Micheline Dionne	Chairperson
Gábor Hanák	
Jim Milholland	
Yoshio Nakamura	
Matthias Zerbst	

Invited Guest

Ann Muldoon	Financial Reporting Council
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Observers

Daniella Alyagon	Israel Association of Actuaries
Alexey Arzhanov	Russian Guild of Actuaries
Janet Barr	American Academy of Actuaries
Maryellen Coggins	Chairperson, ORSA
Simon Curtis	Canadian Institute of Actuaries
Stefan Engländer	Co-Vice-Chairperson, Insurance Accounting
J Helmut Engels	Canadian Institute of Actuaries
Geoffrey Flaxbard	Canadian Institute of Actuaries
Jacqueline Friedland	Canadian Institute of Actuaries
Alfred Gohdes	Chairperson, Actuarial Standards
Shinji Ikeda	Institute of Actuaries of Japan
Tom Karp	Co-Vice-Chairperson, Actuarial Standards
Gareth Kennedy	Casualty Actuarial Society
Daegy Kim	Institute of Actuaries of Korea
Paul Kollmer-Dorsey	American Academy of Actuaries
José Mendinhos	Instituto dos Actuários Portugueses
Bob Miccolis	Casualty Actuarial Society
Amal Rajwani	Canadian Institute of Actuaries
Henry Siegel	American Academy of Actuaries
Pentti Soinen	Suomen Aktuaariyhdistys
Christopher Townsend	Canadian Institute of Actuaries
Doug Van Dam	American Academy of Actuaries

Staff Liaison

Amali Seneviratne	Director, Technical Activities
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