



INTERNATIONAL ACTUARIAL ASSOCIATION

Insurance Accounting Task Force of the Actuarial Standards Committee Meeting Wednesday, April 8, 2015, 14:00-17:30 Renaissance Zurich Tower Hotel, Zürich, Switzerland Minutes

The attendance list is at the end of these minutes

1. Introduction and review of the agenda

The Chair conducted round table introductions and presented the agenda. The Agenda was agreed as presented.

2. Minutes of the meeting in London

The minutes of the meeting in London were approved as presented.

3. Verbal report on activities of the TF since London –Chair, Micheline Dionne

The Chair reported that the TF had 10 conference calls and recognised the high levels of participation by the members and their commitment and enthusiasm during the drafting process. The TF had worked mostly on drafting the Current Estimates (CEs) section before the London meeting. Some comments were received in London but no significant changes were made to the work done on CEs thereafter. The TF will continue to liaise with the ISAP 7 TF to finalise the section on CEs. The TF was divided into small groups and focused on drafting topics which were reasonably stable from an IASB perspective, and have since been working extensively on the following topics:

- Scope, roles, knowledge
- Supplementing ISAP 1
- Classification
- Premium Allocation Approach (PAA) and the Building Block Approach (BBA)
- Risk Adjustments
- Discount rate
- Embedded Derivatives

And to a lesser extent on Presentation and disclosure requirements of IFRS X and Transition.

The remaining topics identified, but yet to be drafted are:

- Aggregation
- Contractual Service Margin (CSM)
- Measurement approach for particular contracts (e.g. Par)
- Disclosure
- Communication and a few other items in the draft which have to be filled out. The *Italic* text in the draft means it's a placeholder and the content needs further consideration.

4. Verbal report received from the ISAP 7 team -Micheline Dionne/ Francis Ruygt

The Chair stated that the TF will continue to work closely with the ISAP 7 TF on common topics, and will strive to maintain consistency to the extent possible. The draft prepared by the IATF has been made available to the ISAP 7 TF and they may use the work of the IATF to the extent possible. The ISAP 7 text is likely to be more prescriptive than ISAP 4 due to the requirements of the IAIS. Francis is on both TFs, and will be relied on to keep the two groups informed of relevant updates. The ISAP 7 TF has prepared some preliminary discussion drafts on three topics (Mortality and Morbidity Assumptions; Discount Rates; Unexpired Premium / Risk reserves) for discussion in Zurich.

5. Feedback from the ASC -Micheline Dionne

It was the first time the ASC was presented with the draft prepared by the TF. The TF felt that it would be good to get some feedback from the ASC on the work done so far to make sure that the work of the TF was moving in the right direction. The ASC was requested to provide feedback on a few specific areas in the draft:

- Depth of discussion in 2.5.3.3.3 Specific assumptions
- Depth of discussion in 2.5.3.4 Risk adjustments
- Use of justify and support, for example in 2.5.3.3.3. h.
- Coordination with ISAP 7

Paragraph 2.5.3.3.3. – There was general consensus amongst ASC members that the content was somewhat too detailed and some of it is better suited in an IAN. During the discussions the ASC members presented arguments for and against the ISAP being less detailed. Some details are helpful for better understanding and clarity. However there was agreement that the lists should not come across as exhaustive lists, the TF was advised to limit the items in the lists and clarify that the list items are non-exhaustive using appropriate language e.g. “such as, but not limited to”.

Paragraph 2.5.3.4 – There was support (although not unanimous) for keeping the content close to as is with some re-phrasing. E.g. 2.5.3.4. d starts with “The risk adjustment should” while the preceding subparagraphs use the wording “ the actuary should”. TF should consider re-phrasing 2.5.3.4. d to be consistent.

2.5.3.3.3. h.i. – The ASC advised the TF to consider using “explain” in place of “justify/support” and “should” in place of “ be able to” in the paragraph. The ASC felt that “justify” was a too strong a word and favoured “support” over “justify”, but recommended using “explain” instead.

It was suggested that the TF try to find out the terminology used by the Auditing or Accounting profession. Derek Wright was charged with finding out the language the Auditing profession uses in IAS 8 to help decide the correct phrase to use here.

In the discussions that took place when reporting the ASC feedback, the following noteworthy points were made for the TF to consider in their later work:

The TF should review the level of detail, particularly in the lists provided, and find the right balance to include in the ISAP.

The ISAP should clearly indicate the direct quotations from the IFRS as such, but direct quotations should be minimised to the extent possible. “Paraphrasing” what is the IFRS may be necessary in some areas to provide context, and should be done with caution. Providing citations to the IFRS where appropriate was also to be considered.

Instead of extensive referencing, which is to be avoided, a suggestion was made to introduce a separate document (which would not be a part of the ISAP) made available only for information purposes which would show in a tabular format text in the Standard, the relevant reference to IFRS X and possibly even reference to the relevant IAN in a third column. This is practice followed in the AAE which the users find very helpful to understand the context of the Standard.

The IAA should try to publish the related IANs around the same time as the adoption of the ISAP, so that the guidance and education material are available to the actuary concurrently enabling better understanding of the concepts and principles.

Overall, the TF should review the wording in the draft for better readability and consistent use of terminology and flow of language.

6. ISAP 4 – Discussion on the draft and changes since London

The discussion draft was projected on to the screen and displayed to facilitate the discussions. The Chair invited comments on the discussion draft. Discussions followed with the following comments/observations:

- Contents in paragraph 1.3. is very repetitive. Does the ISAP apply to an actuary in a non-actuarial role (e.g. actuary in a non-executive director, or Finance Director capacity)? The TF was cautioned that this might be an area of push back (particularly from the UK) and to be clear on the aspect of to whom the ISAP would apply. The TF will look at what is in ISAP 1 and see if anything more needs to be added to ISAP 4.

The wording “fully aware” in paragraph 1.3 should be changed. TF to consider the wording in paragraph 2.1. Knowledge of Accounting Requirements, in ISAP 3.

Some of the details provided under Role of the Actuary can be moved to an IAN.

- The comments received from Dave Pelletier and Alf Gohdes for Section 1 were discussed one by one, leading up to the coffee break. The meeting notes are recorded against each comment in the [linked document](#).
- After the coffee break it was agreed that the draft was at a too early stage for a detailed, sentence by sentence review. What is desired at this stage is a high level review of the main paragraphs and what should/should not be included in the Standard.

The draft was reviewed paragraph by paragraph thereafter for high level comments. The discussions that followed resulted in some high level as well as detailed comments as noted below for the TF to consider.

- Paragraph 2.1. – Current wording follows what is in the SOI. The Chair reported that the E&P Subcommittee had pointed out that the knowledge stated in para f. would be useful to all actuaries providing services related to IFRS X, and not just actuaries who are part of an audit engagement.

2.1.d. change wording to *reporting entity’s appetite for and approach to risk* than pricing risk.

- Add to 2.1. Knowledge of the Company's relevant accounting policies.
- Paragraph 2.2.1. The TF will consider the work of the TF on Governance of Models and draft any specific guidance as required in ISAP 4.
 - Add a new para 2.2.5. - Proportionality, benefit over cost, relating to accounting principles.
 - Paragraph 2.3.1 Avoid using the word “must” in the Standard. Use “should” instead.
 - Consider revising the wording...*The actuary should understand the characteristics of products and...* This should be limited to the products of the reporting entity.
 - Paragraph 2.3.4. a. Embedded Derivatives - should the Standard discuss only the separation or should the Standard also discuss what happens after separation? After separation it is no longer an insurance contract. Once separated, measurement is a different topic (outside the scope of ISAP 4), subject to classification. Clarify this appropriately in ISAP 4.
 - Paragraph 2.3.5. The link to the wording following the sentence*unless the contract belongs to a portfolio of contracts that are onerous at their inception* should be reviewed for clarity.
 - Paragraph 2.3.6. Keep in mind the two different groupings, accounting (IASB perspective) vs. grouping done by the actuary on a technical basis for approximations. These two groupings should be clearly differentiated in ISAP 4 to avoid any misunderstanding.
 - Paragraph 2.4.1. Some refinement in wording may be necessary to clarify that the choice of PAA or BBA is an accounting policy decision and cannot be applied case by case or on an arbitrary basis. The TF to consider this comment taking into account what is already stated in paragraph 2.4.2.
 - Paragraph 2.5.3.3.3.h.ii Discounting para - IFRS X allows for two different approaches in determining the time value of money: the top-down approach and the bottom-up approach. Can a third equivalent approach be used? The TF will check what IFRS X says.
 - In addition to these comments and a few more not listed here, the TF will consider the written comments submitted by Dave Pelletier and Alf Gohdes before the meeting, when reviewing the draft.

At the end of this discussion the Chair thanked all the observers who attended the meeting. Thereafter, the TF members had an in-camera session to plan the next steps and wrap up.

7. Next steps

The TF will have the next three calls at 7:30 am EDT on 5 May, 19 May and 2 June.

The TF was happy with the feedback received in Zurich and will keep moving with the drafting.

Attendance List

TF Members

Micheline Dionne, Chair

Guy Castagnoli

Gábor Hanák, ASC Liaison

Jim Milholland

Yoshio Nakamura

Francis Ruygt

Derek Wright

Matthias Zerbst

Amali Seneviratne, Staff Liaison

John Instance, FRC - Invited Guest

Observers

Lionel Cazali

Stefan Engländer

Alf Gohdes

Heather Jerbi

Gareth Kennedy

Greg Martin

Bob Miccolis

Pierre Miehé

Dave Pelletier

Zhao Xiao Qiang

Henry Siegel

Jacek Skwierczynski

Ernest Visser

Zheng Wang

Peter Withey

Masaaki Yoshimura