



INTERNATIONAL ACTUARIAL ASSOCIATION

Insurance Accounting Task Force of the Actuarial Standards Committee Meeting Wednesday, September 10, 2014, 14:00-18:00 Millennium Gloucester Hotel, London, United Kingdom Minutes

The attendance list is at the end of these minutes

1. The Chair conducted round table introductions and presented the agenda.

The discussion on Current Estimates (CE) to be taken up after the break, enabling IAIS TF members to join.

2. Verbal report on activities of the TF since Washington

The Chair reported that the TF had several conference calls and recognised the high levels of participation by the members and their enthusiasm to participate in the drafting.

The TF has started with drafting the section on CE (tentatively called Cash Flow Estimates in the draft), considering that the proposed ISAP [7] also covers the same topic. Early drafting of this section will help to coordinate with the IAIS TF to achieve consistency and convergence. The initial draft produced by the TF will be discussed with the IAIS TF later in the meeting to seek their feedback.

The Chair and Francis Ruygt along with other IAA representatives had the opportunity to meet with IASB staff in London on 9 September. One of the topics discussed was the SOI on ISAP [4] and the status of the work of the TF. The IASB had a mixed reaction to the development of the ISAP. On one hand they questioned why the guidance could not be included in the accounting standard itself, and on the other hand they supported the objectives of achieving convergence and consistency in practice. It is unlikely that the IASB will formally endorse our ISAP, as this is not something that they would typically do. The IASB welcomed any inputs on their Discount Rates research. The discussion also included ways to strengthen the existing MOU. The ED on IASB's Conceptual Framework is expected in the fourth quarter of 2014/early next year.

3. ISAP [4] Proposed Final SOI

The Chair reported that the proposed final SOI was approved by the EC and is on the Council agenda for ratification, on Saturday. *(Later note: The SOI was ratified by Council on 13 September 2014)*

4. Glossary

A group within the ASC has been working on the changes to the Glossary considering the addition of new terms introduced in ISAP 3 as well as the previous Glossary that existed for the IANs.

Francis explained that the work done since Washington considered the list of definitions in IANs and the new terms added from ISAP 3. Revisions to the Glossary would be approved by Council along with each ISAP.

5. Update on ISAP 7 activities

The IAIS activities and the draft SOI for ISAP [7] - “Current estimates” and other matters in relation to the IAIS capital standards, were noted for information.

6. Discussion

6.1 Current estimates

Andrew Chamberlain, Chair of the ASC’s IAIS TF, gave a brief update on the outcome of the consultation on the SOI for ISAP [7]. 11 organisations have responded to the consultation with all of them supporting the ISAP. Very few changes are expected to the SOI as a result of the consultation. A majority of the comments are for consideration when drafting the ISAP. The SOI is likely to be approved sooner than planned, enabling the TF to move on to work on the ED soon.

Is there a difference between the Current Estimates (CE) for IFRS and CE for IAIS? Andrew said that there will be elements which are common, however, there will definitely be some differences as well.

The draft done by the IATF was discussed, inviting high level comments to start with.

The comments made are as follows:

- The draft is too detailed. Some material is educational.
- The list of items in 2.1.2 is too long. The TF was requested to group the items in the list, e.g. demographics, types of contracts etc., without losing the essential items. This applies to 2.1.3 as well.
- Focus on the big issues.
- Should provide principles based guidance, with statements such as “even if the product is being sold on a gender neutral basis, the actuary should consider whether or not it would be appropriate to take into account gender specific mortality/morbidity when estimating the liability for reporting purposes.”
- Remember that it is a model standard and that jurisdictions would be able to modify it to suit their needs.
- Consider including the topics of credibility, reversion to the mean, trade-offs between credibility and including data over long periods.
- Include guidance on how to address considerable variations in experience year to year e.g. due to weather conditions etc., and how to reflect such variations in the assessment. (some aspects of this may be covered in variability and/or risk adjustment)

- Include unemployment, which has a great influence on persistency if not already covered in economic conditions.
- Number some of the paragraphs currently shown as bullet points (e.g. paragraph 2.1.1.b)
- Cross reference to IFRS X should be clarified
- Some paragraphs could be less descriptive.

The Chair requested further input by e-mail. The TF will consider all the comments received when drafting.

6.2 Work Plan

The Chair presented the work plan proposed by the TF.

Following the feedback from the consultation, the TF has identified 13 topics to be included in the ISAP. The TF will start drafting on eight of these topics initially, i.e. topics that are least likely to have changes when the IASB finalizes IFRS X. The other five which have the potential to change or require more input from the IASB are deferred/under discussion for the moment. TF members have volunteered to work in smaller (two member) groups for each of the eight initial topics and a few preliminary drafts prepared by each group will be discussed at the meeting today.

A very brief overview of the currently proposed topics was given by the Chair, identifying the TF members assigned to each topic. The topics and assignments are as follows:

- 1) Scope, roles, knowledge – Derek Wright and Gabor Hanak
- 2) Classification – Derek Wright and Jim Milholland
- 3) Aggregation – Micheline Dionne and Matthias Zerbst
- 4) Premium Allocation Approach (PAA) and the Building Block Approach (BBA) Bob Buchanan and Francis Ruygt
- 5) Measurement approaches for specific contract types - Deferred to consider later
- 6) Current Estimates – Initial draft prepared by the TF, for discussion in London
- 7) Risk Adjustments – Yoshio Nakamura and Bob Buchanan
- 8) Discount rate (under guaranteed conditions, for now)- Guy Castagnoli and Francis Ruygt
- 9) Contractual Service Margin (CSM) - Deferred to consider later
- 10) Embedded Derivatives - Micheline Dionne and Jim Milholland
- 11) Presentation and disclosure requirements of IFRS X - Deferred to consider later
- 12) Transition - Deferred to consider later

- 13) ISAP 1 supplement - Gabor Hanak and Yoshio Nakamura
(Process and model governance; Quality and completeness of data; Materiality; Trade-off between costs and benefits)

Discussions followed on the following topics based on preliminary drafts prepared on the topics by the assigned members:

ISAP 1 supplement - Gabor Hanak and Yoshio Nakamura

The topics likely to be supplemented are:

- a. Process and model governance: Gabor Hanak reported that the ASC is considering Model Governance as a topic for a separate ISAP or to be included in a modification to ISAP 1. Model Governance will be applicable across many ISAPs so, including it in ISAP 1 seems logical. The ASC has appointed a small group to consider this topic and make suitable recommendations.
- b. Quality and completeness of data: Some preliminary observations have been made, but more time needs to be spent on this.
- c. Materiality: Is likely to follow the wording in ISAP 3, since both are related to IFRS. A discussion took place around the differences between actuarial, audit and reporting entity's materiality for IFRS purposes.
- d. Trade-off between costs and benefits

The feedback provided at the meeting will be considered when improving the draft.

Risk Adjustments – Yoshio Nakamura and Bob Buchanan

Yoshio reported that this section is expected to be relatively short. It will identify some of the principles and requirements specific to the risk adjustment defined by IFRS X and leave all technical issues to the IANs or Monographs.

An initial list of actuarial requirements drafted by Bob was presented. Some suggestions were made – broaden the reference to reinsurance (in 4th bullet) to include all risk mitigation techniques; 1st bullet states that the issue relates to just claim cost outcomes, but it could extend to policyholder behaviour, expenses etc.; Can an entity have different risk appetites for different lines of business/portfolios (2nd bullet) ; these comments will be considered when improving the draft.

Premium Allocation Approach (PAA) and the Building Block Approach (BBA) Bob Buchanan and Francis Ruygt

Francis outlined the proposed section on determining the measurement approach PAA and BBA and how to apply these approaches. There was some feedback indicating that some of

the material was better suited in an IAN. Was some of the material stating the obvious? The Chair re-iterated that outlines presented at this meeting are preliminary thoughts and each section will be drafted to include material suitable to be in a standard, using suitable language and consistent style.

7. Timeline and next steps

The TF will continue to draft on the identified topics considering the feedback received working closely with the IAIS TF.

The TF has scheduled the following conference calls:

Conference Calls Scheduled

September 30, 2014 7:30 EDT

October 22, 2014 7:30 EDT

November 11, 2014 7:30 EDT

November 25, 2014 7:30 EDT and

December 9, 2014 7:30 EDT

The meeting ended at 17:10 hrs. with the Chair thanking all those who attended.

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

Observers

Max Arias

Andrew Chamberlain

David Congram

Michael Davies

Stéphanie Fadous

Sam Gutterman

Pamela Hagan

Sharon Huang

John Instance

Heather Jerbi

Olav Jones

Gautam Kakar

Gareth Kennedy

Greg Martin

Bob Miccolis

Pedro Pacheco

Henry Siegel

Pentti Soininen

Arseny Timakov

Jesús Zúñiga San Martin