



Deadline: 30 April 2019

Please use this template to comment on the [2nd Exposure Draft of ISAP 4 on IFRS 17 Insurance Contracts](#), and the proposed revisions to the [Glossary for ISAP 4](#).

The IAA invites comments on this 2nd Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) Are comments on the questions as stated;
- (b) Take full account of what is already addressed in the [consultation report on the 1st exposure draft](#).
- (b) Indicate the specific paragraph or group of paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Include any alternative that the IAA should consider, if applicable within the scope of the [Statement of Intent for ISAP 4](#).

Identification and instructions		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	Ann Muldoon – comments represent the FRC’s views
Name of organization		Financial Reporting Council
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as “Introduction 3rd paragraph 2nd bullet” or “2.6.1.b.ii” ○ Please insert/append extra rows as needed. <p>Please send the completed template, renamed with the organization’s or individual’s name, attached in <u>Word Format</u>, to ISAP4.comments@actuaries.org</p>	



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	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	We have highlighted a number of areas in our detailed comments where we continue to feel that there is a lack of clarity
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	We have highlighted a number of areas in our detailed comments below where we continue to feel that some further changes are required.

	General Comments on the ISAP 4 – 2 nd Exposure Draft
	<p>We appreciate that the consideration of the many responses to the first Exposure Draft has required significant effort to collate, consider and respond to and commend the Task Force on its efforts and achievements in issuing the second exposure Draft within the timescales it has done.</p> <p>Please see our detailed comments below.</p>

Comments on specific paragraphs of the ISAP 4 - 2 nd Exposure Draft		
Full paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
<p>Introduction</p> <p>Paragraph 2</p> <p>(previously Paragraph 3)</p>	<p>Replace Paragraph 2 with</p> <p>“IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The</p>	<p>We appreciate that we made this point in our response to ED 1. However, we continue to consider that including this quotation from one of the IASB’s project summaries gives the impression that IFRS 17 is only about balance sheet reporting, which of course is not the case, as it also covers the income statement and all the supporting disclosures.</p>



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	objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.”	<p>We suggest that the wording in IFRS 17 Paragraph IN1 would be more appropriate.</p> <p>The wording in the 3rd paragraph of ISAP 4 is helpful but the text from IN1 of IFRS 17 itself is used instead, the 3rd paragraph of the introduction is no longer required</p>
2.6.1 a)	<p>Replace</p> <p>“2.6.1.a. Combining coverages with similar risks based on the nature of the insurance obligation without being constrained by the actual group of insurance contracts.”</p> <p>with</p> <p>“2.6.1.a. Actuaries should consider the appropriate level of aggregation for the purpose of setting each assumption”.</p>	<p>We recognise that aggregation is a complex topic in IFRS 17 and that actuaries should consider the level of aggregation at which it is appropriate to set assumptions.</p> <p>However, we consider that the use of the term “coverages” is neither defined nor used in IFRS 17. There is likely to be no unique meaning to the term and indeed the term may not be recognised by some.</p> <p>We recognise that the intention is to highlight to actuaries the need to reflect the appropriate level of aggregation for the purpose of setting assumptions. However, we consider either removing reference to the term coverages or alternatively to define the term in the Glossary.</p>
2.6.1 c)		<p>We remain of the view that this point has a broader application than IFRS 17. However, we recognise the relevance of this point for ISAP 4 but suggest that consideration is given to including it in ISAP 1 as part of the next review of ISAP 1.</p>
2.6.1 e)	<p>Replace</p> <p>“2.6.1 e The use of credibility techniques when combining information from various sources or time periods</p>	<p>We continue to be of the view that that this guidance appears to be advocating the use of a specific technique for managing the underlying data. However, perhaps the intention is to remind actuaries to be careful about the credibility that can be attached to data from different sources and time periods.</p>



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	With Credibility of data when combining information from various sources or time periods”	While we understand the it is the Task Force’s intention to retain the additional clarification, we suggest that the Task Force considers whether it intends to point to a specific methodology or simply to point to a characteristic of the data.
2.6.3	Replace: Paragraph 2.6.3 (including all the sub-paragraphs) With: “When advising the principal or the entity on any valuations, assumptions or judgements relating to the application of IFRS 17, the actuary should consider all the relevant factors associated with the insurance contracts that, individually or in combination, may have a material impact on the amount, likelihood or variability of the cash flows arising in respect of those contracts, in the context of the requirements and guidance set out in IFRS 17.”	We remain unclear as to why Insurance Risks are particularly singled out for specific guidance and not other risks. We appreciate that we are repeating a point made in response to ED1 again and that the Task Force considers that other risks are covered within the standard, but we continue to consider that there is a broader perspective.
2.6.3 c)	We suggest this paragraph is deleted.	While we don’t disagree that this point is relevant, we remain of the view expressed in our response to ED 1 that this guidance is covered in IFRS 17 B41. We also consider that the point has a broader relevance and suggest that the IAA consider this point for inclusion in its next review of ISAP 1.
2.6.4	Replace “financial literacy”	We recognise that the reference to “policyholder sophistication” has been replaced by “financial literacy” in this version. We assume that the point is trying to reflect that policyholders may



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	With “recognition that individual policyholders may make rational decisions which do not utilise the optimum benefit of an option”	not make decisions to exercise the optimum value of the option e.g. a policyholder may not take a Guaranteed Annuity Option which is only available if you take a single, level pension at age 65 because they may have impaired longevity and wish to retire at 55 instead. We agree with the relevance of the point. We think that it would be difficult for actuaries to assess levels of financial literacy and suggest that the wording be reconsidered.
2.6.6 and 2.6.7 (Previously 2.6.8)		We note that the original paragraph has been split between reinsurance contracts held and reinsurance contracts issued to provide additional clarity. We agree that the points made are helpful and further to our response to ED 1, we suggest that consideration is given to the inclusion of these points in ISAP 1 at its next review, as we consider that they have broader application.
2.6.8 (Previously 2.6.9)	We consider that this paragraph is deleted.	We note that the wording of this paragraph has been updated in ED2. However, we remain concerned that the text in this paragraph is repeating IFRS 17, and IFRS 17 36 b) in particular, and we are not clear on what it is adding.
2.6.9 (Previously 2.6.10)	We consider that this paragraph is deleted.	We note that the wording of this paragraph has been updated in ED 2, but we continue to consider that the points covered in this paragraph are adequately covered in IFRS 17, particularly B78.
2.6.10 (Previously 2.6.6)		We note the change in the title of this paragraph to better reflect the IFRS 17 terminology. In our response to ED 1 we considered that the text in this paragraph paraphrased text already in IFRS 17 36 and B72-B85,



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		<p>particularly B 74.</p> <p>We note the Task Force's response that this paragraph is making a different point, but we remain unclear as to what the difference is and suggest that it is further reviewed.</p>
<p>2.6.11 (Previously 2.6.5)</p>	<p>Replace</p> <p>Maintenance Expenses – when advising the principal or the entity on the estimation of cash flows for maintenance expenses, such as...”</p> <p>With</p> <p>Costs - when advising the principal or the entity on the estimation of cash flows for costs, such as...”</p>	<p>We recognise that the text in this paragraph has been extended to provide examples of what is covered by costs.</p> <p>However, we continue to be of the view that the term “Maintenance Expenses” is not a defined term in IFRS 17 and that IFRS 17 refers to costs. We remain unclear why a new term is being introduced and why the IFRS 17 term is not used.</p> <p>We are not certain that the term maintenance expenses is widely used in all practice areas, and, in particular, for non-English speaking actuaries applying ISAP 4 using a different term would seem an unnecessary complication.</p>
<p>2.6.13 c) (Previously 2.6.12 c))</p>	<p>Remove reference to portfolios of insurance contracts</p>	<p>While we understand from the Task Force report that the reference to portfolios of insurance when IFRS refers to measurement of groups of insurance contracts is deliberate, we still consider that there is scope for confusion.</p>
<p>2.6.13 g) ii) (Previously 2.6.12 g)</p>	<p>Replace:</p> <p>"The inherent uncertainty in the translation to a confidence level and the need to disclose such uncertainty in the actuary's report"</p> <p>With:</p>	<p>We still consider that it is important to describe any uncertainty disclosed in the actuary's report as it is important for users to understand the uncertainty related to the decisions, they make in the risks they accept.</p>



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	"The inherent uncertainty in the translation to a confidence level and the need to disclose and describe such uncertainty in the actuary's report"	
2.9	Deletion or additional clarification	<p>We note the comments made by the Task Force to our response to ED 1. However, it remains unclear whether 2.9.2 creates a specific requirement on actuaries to proactively check presentations and/or disclosures to ensure that there are no issues, even where they have not been asked to provide the disclosure information or be responsible for it.</p> <p>We consider that there could be confusion on the application of 2.9.2 when each of 2.9.1 and 2.9.3 refer to where the actuary is tasked with providing information or advice.</p> <p>If the actuary is required to speak up if they "happen upon" disclosures that are incorrect, we would suggest that this is best managed through a Code of Conduct and we would agree that the actuary should speak up in that circumstance.</p> <p>It is also unclear how the requirement should be applied, e.g. the actuary's report could be finalised as part of the approval of "the numbers" and this could be much earlier than the finalisation of presentations and disclosures and the Board could choose to finalise with different numbers, having taken into consideration the advice of the actuary; Is the actuary expected to re-write their report and re-present to Board?</p>



Comments on specific definitions in the Exposure Draft of the updated Glossary

Note that only the proposed revisions are open for comment

Defined Term	Change proposed to the definition (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)