Deadline: 30 June 2018

Please use this template to comment on the 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 Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) Comment on the questions as stated;
(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:	**Frédéric Tremblay to represent the organization**
Name of organization		**Autorité des Marchés Financiers**
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	**Comments can be disclosed**
Instructions for filling in and sending the template	Please follow the following instructions for filling in the template: ⇨ Do **not** write in the yellow shaded cells ⇨ Write in the white cells ⇨ When commenting on a specific paragraph: ○ 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. **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**	

	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	-
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	The guidance is not sufficient in our opinion to narrow the range of practice. It is too general. Otherwise see the following comments.
Q3.	Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?	The guidance should be more detailed. See our suggestions below at Q4 where more guidance and details may be useful.
Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	Paragraph B78a of IFRS 17 says that an entity shall maximize the use of observable inputs and that the discount rates shall not contradict any available and relevant market data. IFRS 17 somewhat permits to exclude observable information if it is not relevant or reasonable. Moreover paragraph B44 restricts it a lot by adding that an entity shall not substitute its own estimate for observable market data. ISAP 4 would be helpful in giving guidance to actuaries when rejecting observable information. As an example, if there exists risk free government bonds in a country with a duration of 50 years but with a low trading volume, should the actuaries consider it or not? We are of the opinion that if no further guidance is given, the range of practice may be too wide amongst countries and also within a specific country.

Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	There are submissions to the Transition Resource Group (TRG) that were rejected on the basis that they are actuarial in nature. We are of the opinion that ISAP 4 should address those issues. In particular, the question of "Risk neutral" vs "Real world" stochastic scenarios (see TRG's submission log #S14 and #S37 for May meeting). We understand that the IAN can address some of those, but IANs are not as mandatory as the ISAP. Also on the same subject, the Statement of Intent (SOI) mentionned that ISAP 4 was expected to address considerations for the treatment of embedded derivatives. However we have noted that ISAP 4 does not contain much guidance on embedded derivatives.
Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	There is no guidance on how to determine if a contract has direct participation features. In IFRS 17 paragraph B101, the definition of those contracts requires to determine if there is a "substantial share of the fair value returns on the underlying items" that is paid to the policyholder and that "the entity expects a substantial proportion of any change in the amounts to be paid to vary with the change in the fair value of the underlying items". The term "substantial" involves judgment and ISAP 4 should include elements that the actuary should consider when determining if a contract has direct participation features.
Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	The guidance on transition applies only for actuaries when they advise on not to use the retrospective approach. ISAP 4 could be enhanced by adding

		guidance on how to apply the modified retrospective approach or the fair value approach in the context of insurance contracts.

	General Comments on the ISAP 4 Exposure Draft	

Comments on specific paragraphs of the ISAP 4 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)**
2.6.10.a	When deriving the discount rates applied to cash flows beyond the period for which observable market data is available, consider what would be the rates from the perspective of a market participant, i.e. the rates at which market participants would be ready to invest or borrow money for those periods ~~consider how current rates would be expected to evolve over time~~;	The wording in the exposure draft suggests that the actuary should make a prediction on what will be the rates in the future to determine the discount rates after the observable period. This seems to be contradictory to IFRS 17 since it should reflect current market conditions from the perspective of a market participant (paragraph B78b). So it should be the rates at which current market participants (not the entity's nor the actuary's view) would be ready to invest money for the long term at no risk. It is therefore the extension of the current observable interest rate curve.
2.6.10.b	When deriving the discount rates applied to cash flows of insurance contracts, which depend on the returns of the entity's invested assets, consider the entity's investment policy as well as actual and past assets held and in which proportion, taking into account the entity's communications to various stakeholders and with	Usually, investment policies give leeway for investment with ranges for investments in some assets classes. It would not be a good practice to assume that investments in some assets classes are always at the top of the range as an example if past practice has

	due regard for anticipated policyholder behaviour;	been different than that.

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)**
2.6.6.a	Returns on assets should be projected using market prospective expectations consistent with expected future economic conditions;	To be consistent with IFRS 17, rates of return should be market participants' expectations, not be entity's specific expectations. Paragraph B44 stipulates that : "Estimates of market variables shall be consistent with observable market prices at the measurement date." Paragraph B48 is also important in regard to that.