INTERNATIONAL ACTUARIAL ASSOCIATION

Comments Template for Exposure Draft of ISAP 4

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:	**In the U.S., no ISAP is recognized as providing guidance to U.S. actuaries. Only standards of practice promulgated by the Actuarial Standards Board apply to actuaries in the U.S. Therefore, these are unofficial comments offered with the intention of being helpful to the ISAP drafting group from several members of the U.S. Actuarial Standards Board with contribution from the Financial Reporting Committee of the American Academy of Actuaries.**
Name of organization		**U.S. Actuarial Standards Board with contribution from the Financial Reporting Committee of the American Academy of Actuaries**
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	**Not Confidential**
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?	In general, the guidance is clear and unambiguous. However, in places the guidance could be clearer. Our suggestions for improvement are noted below.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	In general, the guidance is sufficient and appropriate.
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?	Yes, we believe the guidance is at the right level of detail.
Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	Our suggestions for some additions or deletions are noted below.

	General Comments on the ISAP 4 Exposure Draft	
	The Role of the Actuary The model standard as written is not as clear as it might be about the various roles that the actuary can have in an IFRS 17 assignment. A brief mention of the role is in the introduction (page iv) but not in the model standard itself. As a result, the interpretation of what is written within the model standard can vary based on the circumstances of the actuary's role. The roles that the actuary may have could include a company employee, consultant, regulator, or employee of an auditing firm. Assignments could range from an initial conversion to IFRS 17, ongoing preparation of inputs to financial statements to some type of back-end opinion that may be requested by management or some regulator on the reasonability of certain actuarially determined portions of the resulting financial statements. The actuary may be part of a team that has a complete view of the entire financial statement or may just be preparing a component part. Within paragraph 1.2, there is an acknowledgement that if an actuary has a different role, the actuary "should apply" the standard as relevant. But this alternative role may be more prevalent than the model standard implies, which is that an actuary could only work on the entirety of the company rather than on a segment or individual line and/or account.	

	Relevancy and Materiality The draft model standard lists many items that may not be relevant in all cases or all assignments. We suggest including "where applicable/relevant and material" in many of the lists contained within ISAP 4. In particular, paragraphs 2.1, 2.6.1.f, 2.6.5, 2.6.8.c, and 2.10 list items that are unlikely, in our view, to be relevant in all cases or all assignments. *Cat bonds* There is no mention of Cat bonds, which are scoped into IFRS 17 as insurance contracts from the perspective of the bond buyer. Some coverage of this topic might be useful. *Business combinations* There is no mention of the treatment for claim liabilities acquired via a business combination. This is a topic that the IAA might consider including in the ISAP. *Transition guidance* There is no mention in the draft model ISAP of the actuary's responsibilities for financial reporting under the transition guidance requiring retroactive application, and whether that means that IFRS 17 would likely be applied retroactively for past purchases (where there are still outstanding liabilities from the acquired entity).

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)**
2.1 and 2.2		There may be instances where the actuary may not know the auditor's materiality, thus wording may need to be modified to accommodate this

		situation.
2.3		Should this paragraph be in ISAP 1, as it does not seem to be specific to IFRS 17?
2.4	The actuary should disclose in the actuary's report changes in the above processes ~~, including the rationale for the changes~~ and their impact.	We suggest deleting the requirement to disclose the rationale for changes to past processes since these may relate to accounting decisions, not actuarial decisions.
2.6.1	General approach for selection of assumptions – When advising the principal or the entity on ~~actuarial~~ assumptions, the actuary should:	To be consistent with other references in this ISAP, consider removing "actuarial" before assumptions.
2.6.1.a	~~For the purpose of setting assumptions, c~~CConsider disaggregating insurance contracts into separate coverages with similar risks based on the nature of the insurance obligation when setting assumptions;	We suggest an edit to make the wording more concise. The use of "consider" seems appropriate since disaggregation may not always be done depending on circumstances such as considering data volume/credibility and whether such disaggregation is likely to materially impact the final aggregate result.
2.6.1.b	~~Be aware~~Consider that current pricing assumptions may not be appropriate for	We suggest the more direct wording as shown.

	IFRS17 purposes;	
2.6.2	Process for Updating Assumptions – If the actuary considers it appropriate to change the process used to update a recommended assumption, the actuary should ~~discuss~~ consider discussing the change with the principal, including whether it would constitute a change in accounting policy or just a change in an accounting estimate as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	P&C actuaries generally recommend estimates and not individual assumptions, therefore, the process to update assumptions is usually just part of updating the accounting estimate. To include this process, we suggest revising the language as shown.
2.6.5	Maintenance Expenses – When advising the principal or the entity on the projection of cash flows for maintenance expenses or when producing cash flow estimates, the actuary should consider relevant factors including the following	We would suggest adding "or when producing cash flow estimates." The current wording only addresses the situation when an actuary provides advice on another's calculation, as opposed to producing a recommended estimate themselves.
2.6.5.b	Expenses expected to arise from fulfilling obligations existing on the measurement date. This estimate should consider the entity's past expenses and the likelihood of the realization of business plans, if material; and	The "likelihood of realization of business plans" may not be a material consideration for the runoff of short-duration policies.
2.6.7.		Add policyholder contracts to the list.
2.6.7		The phrase "Entity Discretion" is unclear from the P&C perspective. We believe this is alluding to policyholder dividends, but more clarification would be helpful.
2.6.7.e	Relevant laws and regulations and r~~R~~ulings of relevant authorities.	This paragraph should probably include "relevant laws and regulations," as these may not be

		included in the term "rulings."
2.6.9		Our team of experts does not believe that IFRS 17 requires the actuary to anticipate future changes in FX, and in what cases that is required. We recommend verifying this language.
2.6.11	Insurance Acquisition Cash Flows – The actuary should be satisfied that the allocation of insurance acquisition cash flows is made on a consistent basis to each portfolio of insurance contracts. The insurance acquisition cash flows should ~~replicate~~ approximate actual acquisition costs.	The phrase "should replicate" implies greater precision than we see when providing estimates. We suggest revised language.
2.6.12.a	Identify the non-financial risks inherent in the insurance contracts, if material;	We suggest adding "if material" since there are a vast number of "non-financial risks" if one wants to be excessively granular.
2.6.12.b.i	Take into account any diversification benefit for the entity ~~includes in its compensation risk~~; and	The use of "compensation risk" is not clear. Is this phase an attempt to define the risk adjustment that compensates the insurer for the risk? We suggest revised wording to eliminate this phrase.
2.6.12.f		This wording implies that you would calculate the gross and ceded to get the net. In many cases it is easier (and produces a better estimate) to calculate the gross and net, and then back into the ceded. The wording should allow for this approach.
2.6.14.a-b		The current policy of the entity may not be applicable for a company with all its contracts

		under PAA that has acquired a company with long-tail claim liabilities. The entity's policy (if all under PAA) is not relevant to the acquired long-tail claim liabilities.
2.7.1	Consider the entity's recognition for insurance acquisition cash flows as expenses and determine the liability consistently with this election of whether ~~Be aware of whether~~ the entity has opted to recognize insurance acquisition cash flows as expenses and determine the liability consistently with the entity's approach;	The accounting for deferred acquisition costs is typically not an actuarial exercise for a P&C company, hence this paragraph is not always (if ever) relevant to an actuary doing work under PAA. The phrase "Be aware" is also used in 2.7.1. Consider rephrasing as shown.
2.7.2.a	The pattern of expected incurred insurance service maintenance expenses, plus the release of the risk adjustment for non-financial risks, plus the release of the CSM under the general measurement approach is materially different from the expected timing of incurred insurance revenue under the PAA;	The term "expenses" in this paragraph may be misleading, as IFRS 17 includes claim payments in its term "expenses." Hence this could be clarifiedby adding "maintenance."
2.7.2.a	The pattern of expected recognized insurance service expenses, plus the release of the risk adjustment for non-financial risks, plus the release of the CSM under the general measurement approach is materially different from the expected timing of ~~incurred~~ recognized insurance revenue under the PAA;	It is not clear what is meant by the term "incurred insurance revenue." Perhaps this should be "recognized insurance revenue"?
2.7.3		Guidance to "Review regularly" something may not be consistent with the actuary's assignment. We suggest the wording in this section be revised to reflect it may be applicable only when required for the actuary's assignment.

2.9.1	Where the terms of the assignment are such that the information provided by the actuary may be used in financial statement presentation and disclosure, the actuary should provide ~~all~~ upon request the related information needed to comply with the relevant presentation and disclosure requirements of IFRS 17 and the entity's accounting policies.	The term "all" in this paragraph is problematic as it can be an impossible task to provide "all" information, and "all" criteria can significantly increase litigation risk.
2.9.2	If the actuary ~~had~~ becomes aware that presentations and/or disclosures are incorrect or inappropriate, the actuary should disclose that in the actuary's report.	Many times the actuary's report will be informing the financial statement, and as a result the actuary may not know whether the actuary's work is interpreted correctly.
3.1.2	The rationale and impact of any changes in approaches, if material, including:	
3.1.2.a		To the extent that section 2.4 is revised in accordance with the recommendation above, consider appropriate edits for section 3.1.2.a.

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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)**
