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:	Simon Curtis (representing the Actuarial Standards Board (ASB)), Les Rehbeli (representing the Canadian Institute of Actuaries (CIA))
Name of organization		Actuarial Standards Board, Canadian Institute 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 Word Format, to ISAP4.comments@actuaries.org**	

<table>
<tr><th></th><th>Specific Questions asked by the ASC</th><th>Response</th></tr>
<tr><td>Q1.</td><td>Is the guidance clear and unambiguous? If not, how should it be changed?</td><td>There are a few areas where additional clarity is needed:

We note that nowhere in ISAP 4 does it say that compliance with IFRS 17 is a prerequisite to compliance with ISAP 4 and that the actuary must be familiar with IFRS 17. We believe it would be appropriate to add such a statement. Perhaps this text could be added in the introduction where there is a reference to the ISAP providing guidance when performing actuarial services in conjunction with IFRS 17.
The ISAP should emphasize that IFRS 17 is an accounting standard, and that ISAP 4 applies to actuaries only when advising the entity on IFRS 17. This qualifier is included in some sections of the ISAP, but not others (for example, paragraph 2.6.13 – Aggregation and Contractual Service Margin (CSM) includes guidance for actuaries without this qualifier, which implies that actuaries have responsibility for this topic). The introduction to ISAP 4 could include a general qualifying/limiting statement that applies to all aspects of IFRS 17, and these qualifying statements could then be removed from the individual sections of ISAP 4.
The ISAP should not be adding additional requirements beyond what IFRS 17 requires. Specifically, paragraph 2.7.2 lists three considerations to assess whether the premium allocation attribution (PAA) approach is a reasonable approximation to the General Model. We note that two of the three items in the list (a and c) are not requirements of IFRS 17 (there is no requirement in IFRS 17 that the pattern and timing of profit/loss be (approximately) the same, only that the carrying value of the liability be (approximately) the same for all future periods).
There are several sections in the ISAP where an illustrative list is provided to emphasize a point. The ISAP should make clear that these lists are illustrative only, and that other considerations are also appropriate. This can be achieved by adding the qualifying words “including but not limited to” when describing the lists or examples. An example of this is paragraph 2.6.10c(ii) which references the use of credit default swaps (CDS) as a consideration in estimating the illiquidity premium. This can be read as a requirement to consider CDS, and it should therefore be clarified that this is just one possible consideration, and that IFRS 9 techniques or other considerations might also be applicable.
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		• In some cases, the ISAP uses terminology that is different from IFRS 17. For example, paragraph 2.1 refers to the entity's risk appetite which is not mentioned in IFRS 17. This should be changed to the "entity's view of the compensation required . . ." or other terminology used in IFRS 17. As another example, paragraph 2.7.2b uses the language "timing of cash flows . . . result in materially different adjustments for time value of money", while IFRS 17.53 uses the language "measurement of the liability . . . not differ materially". In general, the ISAP should not change the wording from IFRS 17. • In some cases, the ISAP refers to economic scenarios. It should be clarified that these are scenarios consistent with current market prices and not the entity's own expectations. For example, paragraphs 2.6.1c, 2.6.6, and 2.6.10a refer to economic scenarios without clarifying this. Also, paragraph 2.6.9 (currency exchange) requires the actuary to reflect future expected changes in currency when multiple currencies are involved. Again, this should clarify that these are expectations based on current market prices, not the entity's own expectations of how currency exchange rates might move. • Discount rates are discussed in both paragraphs 2.6.6 and 2.6.10, but with different wording in each. It might be clearer if 2.6.6 dealt with cash flows that vary with underlying items (including discount rates), and 2.6.10 focused on discount rates for cash flows that do not vary with underlying items. • Expenses are discussed in paragraphs 2.6.5 and 2.6.11, with slightly different wording in each. We suggest combining these two paragraphs, with consistent wording. • In paragraph 2.6.6 (Contracts with Participation Features or Other Variable Cash Flows), it is not clear what "variable" means. Similarly, it is not clear if "participation" here means only to the extent driven by underlying asset returns as opposed to participating in other experience. It would be clearer to change the title to say "contracts with cash flows that vary based on returns on underlying items". • In the references to reinsurance, it could be appropriate to distinguish more clearly between considerations that are relevant for reinsurance held and those that are relevant to reinsurance issued, for example by splitting paragraph 2.6.8 into two sections. It would also be useful to use terminology that is consistent with IFRS 17 throughout (for instance, IFRS 17 refers to reinsurance held, not reinsurance ceded).

		• There is no difference in determining fulfillment cash flows between the variable fee allocation (VFA) approach and the General Model. Paragraph 2.8 is therefore redundant and could be deleted. • Paragraph 2.6.12 discusses disclosure of confidence levels, and states that the actuary should disclose the inherent uncertainty in translating to a confidence level. This might imply that the actuary could disclose a range of confidence levels rather than specifying a point estimate. Is this intended?
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	We have the following comments: • The development of the CSM over time will likely need significant interaction between the actuary and other professionals to gather the information needed (e.g., premiums, claims reported in the period). We believe that this is not sufficiently captured in the current paragraph 2.6.13 wording, and there should be a reference back to ISAP 1 on reliance/data as it relates to these key items for determining the CSM. • Paragraph 1.4 says that "the guidance in this ISAP complements the guidance in IFRS 17, which is not repeated in this ISAP". We do not believe it is appropriate to refer to IFRS 17 as providing guidance (it outlines requirements), and we believe the word "complements" when referring to ISAP 4 is too strong. We suggest this text be changed to "the requirements in the ISAP are consistent with those in IFRS 17, which are not repeated in the ISAP". • Paragraph 2.6.2 discusses the process used to update actuarial assumptions. We believe that the ISAP should not be commenting on processes to set assumptions and suggest that the paragraph be deleted. We also think it is incorrect that a change in process to set an actuarial assumption would be considered an accounting policy change. If this reference to process is maintained, then at a minimum, the reference to accounting policy should be adjusted, and further guidance as to what constitutes "process" is needed.
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	See specific comments below.

	more detailed guidance?	
Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	• Paragraph 2.6.12e (non-performance risk for reinsurers) should be deleted, as the IASB staff have clarified that reinsurer non-performance risk is not included in the risk adjustment for non-financial risk. • Since the actuary is likely to be more involved in presentation and disclosure matters than previously, it may be helpful to provide some additional guidance on these other topics. Section 3 discusses the actuary's role in disclosure of confidence levels—perhaps this section could be expanded to discuss other disclosures and presentation matters as well. The current section on disclosure of confidence level can be expanded to other topics. • Paragraph 2.7.3 could be expanded to clarify the actuary's duty with respect to level of effort required to prove whether a subgroup is onerous.

	General Comments on the ISAP 4 Exposure Draft	
	• In Canada we are looking to adopt the text of ISAP 4 into our standards with as few changes as possible. Our comments above should be taken in that context. • It would be helpful to the user if the ISAP could provide specific paragraph references to IFRS 17 where possible. • The following sections would be better suited for inclusion in the International Actuarial Note (IAN) rather than ISAP 4: ○ Paragraph 2.7.1 – this paragraph repeats the requirement of IFRS 17 and is therefore arguably redundant in the ISAP. It might be more helpful if the PAA chapter of the IAN could expand on/illustrate this requirement. ○ Paragraph 2.8 – as worded, this paragraph is redundant, because there is no difference in fulfilment cash flows between the VFA and the General Model. This paragraph could therefore be deleted from the ISAP. However, it would be helpful if the IAN (rather than the ISAP) could clarify what elements are actually impacted by the VFA (e.g., CSM, other comprehensive income (OCI)), and which are not (e.g., future cash flows (FCF)).	

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)**
1.7	Financial statement~~s~~	
2.1e	How laws affect~~s~~	
2.4b	Separation of components that would be within the scope of another standard from an insurance contract	Additional clarification to be added.
2.6.1b	Be aware that ~~current~~ pricing assumptions may not be appropriate for IFRS17 purposes	
2.6.1c	Make links as necessary to ensure consistency ~~between~~ among assumptions ~~(eg assumptions related to option exercise patterns should be linked to economic scenarios~~;	Implies that there is a requirement for economic scenarios (there is not).
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 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*~~.	Suggest dropping this paragraph. Should not be commenting on the processes used to update assumptions—and the suggestion that such a change might be a change in accounting policy is incorrect
2.6.6	~~Contracts with Participation Features or Other Variable Cash Flows~~ Contracts with Cash Flows That Vary with Returns on Underlying Items	Not clear exactly what "variable" means. Similarly, not clear if "participation" here means only to the extent driven by underlying asset returns as opposed to participating in other experience.
2.6.6a	Returns on assets should be projected using prospective expectations consistent with current market expectations of ~~expected~~ future economic conditions (calibrated to current market prices)	Reference to "expectations" seems to imply entity's own expectations rather than expectations consistent with current market prices.

2.6.7c	The entity's current policy **with respect to benefit adjustments**	IFRS 17 B98 and B99 say that the entity's current policy is relevant when assessing adjustability of benefits. ISAP4 should be consistent with this.
2.6.8c(iv)	"Default by ceding issuers, including retrocessionaires"	Terminology is confusing. Would it be simpler to just refer to default by reinsurance counterparties?
2.6.9	, the actuary should reflect current market expectations of ~~the expected~~ future changes in currency exchange rates (calibrated to current market prices)	Reference to "expected future changes . . ." implies entity's own expectations (vs. consistent with market prices).
2.6.10c	When deriving the illiquidity adjustment for the discount rate, consider: i. Approaches that are robust and that should be able to be applied reliably over time and under a variety of market conditions; ~~and~~ ii. Available market data (e.g., credit default swap spreads) when deducting a credit or default allowance from observed asset yield rates; and/or iii. The entity's approach to applying IFRS 9 impairment provisions.	Make it clearer that the credit default swaps are just one example. It may also be helpful to mention IFRS 9.
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~~ group of insurance contracts	Insurance acquisition cash flows are allocated to groups, not portfolios. Insurance acquisition cash flows are attributed to portfolios. So either change "allocated" to "attributed" or change "portfolio" to "group".
2.6.11	~~The insurance acquisition cash flows should replicate actual acquisition costs~~ OR The insurance acquisition cash flows should replicate allocated ~~actual~~ acquisition costs	Insurance acquisition cash flows will not replicate actual acquisition costs, since actual acquisition costs also typically include indirect costs.

2.6.12b i	Take into account any diversification benefit the entity includes in ~~its compensation risk~~ the compensation it requires for bearing the uncertainty in future cash flows resulting from non-financial risk	Increased clarity.
2.6.12e	~~Assess the uncertainty caused by the potential of non-performance by reinsurers within the risk adjustment for non-financial risks;~~	The IASB staff have clarified that this is not to be considered in the risk adjustment for non-financial risk.
2.6.12f	Consider whether the difference between the total of the calculated gross risk adjustment~~s~~	
2.6.12g	When advising on the confidence level disclosure required by IFRS 17, where the risk adjustment for non-financial risk	
2.6.12g i	The entity's ability to diversify non-financial risks over the ~~total~~ business	Use of the word "total" is confusing where the entity has multiple legal entities.
2.6.13b	Allocation of individual insurance contracts into portfolios, and division of each portfolio into groups of insurance contracts	
2.6.14a	Follow procedures that are consistent with those for insurance contracts issued; and	No suggestions for wording. However, "procedures" in this context seems incorrect. It is not clear what aspect(s) of the acquisition the actuary is advising on, and therefore which "procedures" this is meant to refer to. CSM is not the same as for issued contracts.
2.9.2	If the actuary has~~d~~ become aware	
2.9.3	In providing advice on the disclosures of reconciliations where the order of calculations alters the information disclosed,	

2.10d	The method that would have been used to adjust past known interest rates to achieve the rates that represent the characteristics of the insurance contracts;	

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)**