

**ISAP 4 – IFRS 17 Insurance Contracts
Report on Treatment of Comments on the Final Review**

Submission

The Actuarial Standards Committee (ASC) is pleased to submit this report. It was drafted by the ISAP 4 Task Force of the ASC and reviewed and edited by the ASC. Throughout the document “we” means the ASC.

This report documents the comments we received on the proposed ISAP 4 in the final review process and how we addressed those comments. We would like to express our thanks to those commenters.

Process

In accordance with the IAA’s due process for the development of ISAPs, the proposed final ISAP 4, along with the amendments to the Glossary for the proposed final ISAP 4, were published for final review on 17 July 2019 with a comment deadline of 16 August 2019. The proposed final ISAP 4 and the associated Glossary were provided to all member associations and commenters on the two Exposure Drafts to enable them (a) to draw attention to any unintended consequences in the final draft’s wording, and (b) to determine whether their comments have been appropriately considered in the preparation of the proposed final draft of ISAP 4.

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General Overview of the Comments Received

We received six comment letters; five from Full Member Associations, and one from a Standard Setter that is not an FMA.

Two of the six commenters were satisfied with the proposed final ISAP 4 as published for final review. Four commenters made a few specific suggestions. All suggestions were carefully considered by the ISAP 4 Task Force of the ASC. Comments received can be viewed in their entirety on the IAA website at:

https://www.actuaires.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=STANDARDS_FINAL_REVIEW_ISAPIFRS

Summary of Comments, and Our Responses:

	Submitted By	Date Received
1.	Deutsche Aktuarvereinigung (DAV)	13 August 2019
Comment	<p>We believe that the re-wording after the last exposure period has led in two cases to statements that could be more precise (cf. item (a) in the transmittal letter):</p> <p>Chapter 2.6.9 a) “Discount rates for periods beyond those for which observable data from an active market is available, the actuary should consider how current rates are expected to evolve over time using the best information available in the circumstances, including such market prices as are observable; and”</p> <p>The standard refers to active market. However, active markets may generate prices based either on a small trading volume (compared to the overall volume of liabilities to be valued in an insurance market) and/or showing a significant bid/ask spread. For this reason an actuary valuating liabilities has to consider the depth and liquidity of the market segment he is taking market data from. As the standard should rather refer to actuarial duties than quoting the standard, the amendment should be removed and the initial wording should be maintained, i.e. “deep and liquid” instead of “active”.</p>	
Response	<p>By adding ‘<i>the <u>actuary</u> should consider how current rates are expected to evolve over time using the best information available in the circumstances, including such market prices as are observable</i>’, we are providing additional guidance which would cover making actuarial judgment beyond and within the available data on items such as small trading volumes and large spreads. In addition, ‘deep and liquid’ goes beyond the standard requirements. No change.</p>	
Comment	<p>Chapter 2.6.9 b) “Discount rates for cash flows of insurance contracts, that vary with the returns of the entity’s invested assets, the actuary should consider the entity’s investment policy, as applied in practice, taking into account the entity’s</p>	

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	<p>communications to various stakeholders and, where applicable, anticipated policyholder behaviour”</p> <p>The relevance of this paragraph differs among different jurisdictions and different types of contracts with CFs that vary with the underlying item. For this reason, we think that the verb “may” should replace the verb “should”.</p> <p>We’d be grateful if the amendments we propose could be included in the final version of ISAP 4</p>
Response	Different practices in different jurisdictions are covered by the words ‘ <i>as applied in practice</i> ’. No change.

2.	Society of Actuaries in Ireland	13 August 2019
Comment	<p>We have not identified any unintended consequences in the proposed final draft’s wording. We confirm that the comments which we made have been appropriately considered by the Task Force. We note that the response to the comment which we raised in relation to the wording of 2.6.8 (now 2.6.6.b.i) is that this is a technical point which would be better answered through educational material.</p> <p>We would suggest that in 2.6.6.b.ii the second occurrence of the word “of” be replaced by “for” i.e.</p> <p>ii. In the estimates of future cash flows to be received from reinsurance contracts, allow for the uncertainty caused by the potential of for non-performance by reinsurers;</p>	
Response	We think both are equivalent. No change.	
Comment	Consideration might also be given to inserting commas in the phrase “the rationale for, and impact of, the changes” which occurs in a number of places in the draft.	
Response	Minor editing. No change.	

3.	Australian Actuaries Institute	14 August 2019
Comment	<p>2.7.2. Is just advising the principal of the existence of a significant financing component sufficient, or should the actuary act accordingly in the performance of calculations (i.e. calculate the liability in the knowledge that a significant financing component exists)?</p> <p>This is a new paragraph which has not previously been reviewed.</p>	
Response	We changed 2.7.2. to “Assess whether <u>insurance contracts</u> in the group have a significant financing component, advise the <u>principal</u> or the <u>entity</u> , and measure the liability accordingly;”	

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Comment	2.9.1(b) The processes to be followed where the actuary’s recommendations or results are included inappropriately in the IFRS 17 financial statements or disclosures needs to be consistent with the requirements of ISAP 1 (e.g. discussion with the principal, disclosure of concerns in reports).
	This guidance is potentially inadequate and inconsistent with other guidance
Response	We are not inconsistent with ISAP 1. We have ‘the actuary should discuss and report these issues to the principal ’.. which includes a duty to document the concern. No change.

4.	Financial Reporting Council (UK)	15 August 2019
Comment	Thanks for the opportunity to comment on the final version of ISAP 4. We commend the efforts of the Task Force and ASC in the development of this model standard. The FRC has no further comments to add and look forward to the publication of the standard.	
Response	Thank you.	

5.	Actuarial Society of Hong Kong	16 August 2019
Comment	On behalf of ASHK IFRS 17 Task Force, we have reviewed the final draft of ISAP 4 and confirmed no further comments and it is good to go. Many thanks!	
Response	Thank you.	

6.	Canadian Institute of Actuaries	16 August 2019
Comment	The CIA and the ASB have reviewed the proposed final draft of ISAP4. We are generally supportive of the proposed final draft and commend the ASC for developing this standard.	
Response	Thank you.	
Comment	We would like to make one important comment for your consideration, which we believe needs to be addressed in the final edit: 2.6.13: The section on risk adjustment directs the actuary to reflect diversification (2.6.13(b)(i)) and select a method that “allows for diversification” (2.6.13(c)(iii)). IFRS 17 only requires that diversification be reflected if the entity considers diversification in the compensation it requires for taking risk. However, an actuary would consider diversification when advising on the confidence level of the risk adjustment.	
Response	We made wording changes to b.i and c.iii.	

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Comment	We would like to make the following minor comments for your consideration: 2.4: We continue to think that bullet (e) should be removed and bullet (b) should be “Combination and separation of insurance contracts” to avoid confusion.
Response	We had a lot of discussion and the current version satisfies prior comments received. No change.
Comment	We would like to make the following minor comments for your consideration: 2.7.1(a) – In assessing eligibility for PAA, IFRS 17 doesn’t require the expected patterns of revenue to be similar (only that the measurement at each future reporting date be similar). The two will often go together, but in our opinion, the IAA shouldn’t be adding restrictions.
Response	We are comfortable with the existing wording. No change.
Comment	We would like to make the following minor comments for your consideration: 2.6.6(b) – Bullet points (i) and (ii) regarding reinsurer non-performance risk appear to be redundant. We would recommend combining these two bullets into a single bullet.
Response	We are comfortable with the existing wording. No change.
Comment	We would like to make the following minor comments for your consideration: Glossary – It is not clear to us whether there is a difference between “Measurement Date” and “Valuation Date”. They appear to have the same meaning.
Response	Valuation Date only applies to ISAP 2 and 5. It is the Measurement Date that applies to ISAP 4.
Comment	The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.
Response	Thank you.