Seeing Beyond Risk | Canadian Institute of Actuaries | Institut canadien des actuaires | Voir au-delà du risque

November 27, 2014

International Actuarial Association
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Re: International Standard of Actuarial Practice on Actuarial Practice in Relation to IAS 19 Employee Benefits (ISAP 3) – comments on proposed final version released on September 30, 2014

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession. The CIA establishes the Rules of Professional Conduct, guiding principles, and monitoring and discipline processes for qualified actuaries. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

We welcome the opportunity to provide further input on ISAP 3, and we are pleased our comments on the initial draft have largely been reflected. We have the following comments on the proposed final version that was released on September 30, 2014.

Paragraph 2.6.3

While we appreciate that some of the original detail in the exposure draft has been removed, the level of detail included in paragraph 2.6 continues to go beyond that which we feel is appropriate in an ISAP, which should be restricted to the key principles. Regarding paragraph 2.6.3: although this is not an issue in Canada, we believe that there are countries that may apply this ISAP where one or more of the methodologies listed in paragraph 2.6.3 may not be acceptable to auditors in that country; for example, when the data is considered too sparse to be used. We suggest the last sentence in the opening paragraph of 2.6.3 is amended as follows:

> The actuary may use a variety of approaches to identify a discount rate assumption that satisfies this requirement, including the following, where appropriate:

Paragraph 2.6.1.b.i and Paragraph 2.6.4 General Price Inflation Assumption

The term "market-implied expectations" is being used incorrectly to encompass both expectations based on the market price of financial instruments and expectations from other sources. We suggest the following changes to address this. In addition, we recommend that the examples in the two paragraphs be made more consistent.

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- Amend the opening paragraph of 2.6.1.b.i to:

  With respect to financial assumptions, the actuary should review information on market-implied expectations at the measurement date to the extent there is an active market for financial instruments that reflect a particular financial contingency. The actuary should also consider other indicators of future financial events.

- Amend the opening paragraph of 2.6.4 to:

  When the actuary is advising the principal on the selection or reasonableness of a general price inflation assumption, the actuary should review relevant available information on market-implied expectations at the measurement date. The actuary should also consider other indicators of future general price inflation.

- We would also suggest that the following item be added to the list of examples in both paragraphs:

  the results of an appropriate asset model used to support the full set of financial assumptions.

Paragraph 2.6.1.b.ii

The wording at the end of this paragraph could be interpreted to permit the actuary to ignore the experience of the covered population. We suggest that the wording be enhanced as follows:

> This guidance does not impose additional duties on the actuary beyond the scope of the actuarial services to review the experience of the covered population, provided the assumptions are appropriate for the work or, if applicable, subject to the considerations in ISAP 1 paragraph 2.8.2.

Paragraph 3.1 Disclosures in Report, as connected to Paragraph 2.6.7 Change in Process for Developing Assumptions

We suggest that 3.1 should be revised as follows:

3.1. Disclosures in the Report – In addition to complying with ISAP 1 Section 3. Communication, the actuary should disclose in a report on the financial condition or cost of an employee benefit plan:

a. Any material deviation from the guidance in this ISAP (1.3.);

b. Any reliance on the principal's representations regarding constructive obligations (2.4.); and

c. Any information that is requested to be disclosed, such as information regarding a change in the process for selecting assumptions (2.6.7).

Conclusion

The Canadian Institute of Actuaries hopes its comments herein will be of value. We thank you for offering us the opportunity to respond.

Respectfully submitted,

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